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BEFORE THE ARIZONA CORPORATION COMMISSION RECEIVED

WILLIAM A. MUNDELL  
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COMMISSIONER

2002 APR 10 P 3:34

ARIZONA CORPORATION COMMISSION  
CLERK OF THE COMMISSION

IN THE MATTER OF U S WEST  
COMMUNICATIONS, INC.'S COMPLIANCE  
WITH § 271 OF THE  
TELECOMMUNICATIONS ACT OF 1996.

DOCKET NO. T-00000A-97-0238

**QWEST CORPORATION'S NOTICE OF  
FILING COLORADO TRANSCRIPT  
REGARDING §272**

Qwest Corporation ("Qwest") hereby provides notice of filing the attached Colorado transcript regarding §272. Attached hereto are pages 1-131 of the transcript from the Colorado workshop held in the Colorado Section 271 proceeding on July 24, 2001. The portions of the transcript covering §272 from that workshop are submitted in their entirety. The portions of the transcript not covering §272 have been omitted.

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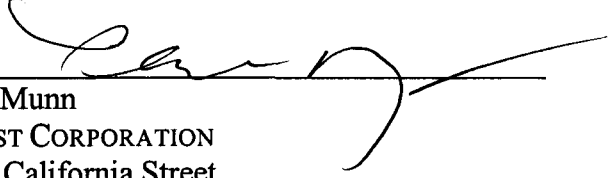
Arizona Corporation Commission

DOCKETED

APR 10 2002

DOCKETED BY	<i>me</i>
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Respectfully submitted this 10th day of April, 2002.

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1                   BEFORE THE PUBLIC UTILITIES COMMISSION  
2                   OF THE STATE OF COLORADO  
3                   Docket No. 97I-198T - Workshop 7

4                               \*           \*           \*

5           IN THE MATTER OF THE INVESTIGATION OF US WEST  
6           COMMUNICATIONS, INC.'S COMPLIANCE WITH SS 271(c)  
7           OF THE TELECOMMUNICATIONS ACT OF 1996.

8           -----

9                   Pursuant to notice to all parties of interest,  
10           the Technical Workshop was held at 8:35 a.m., July 24,  
11           2001, at 3898 Wadsworth Boulevard, Lakewood, Colorado,  
12           before Facilitators Hagood Bellinger and Martin Skeer.

13                               APPEARANCES

14                               (As noted in the transcript.)

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## 1 P R O C E E D I N G S

2 MR. BELLINGER: We'll start with  
3 appearances. I'm Hagood Bellinger with DCI.

4 MR. SKEER: Marty Skeer with DCI.

5 MS. DOBERNECK: Megan Doberneck, Covad.

6 MS. WAYS DORF: Julia Waysdorf of the  
7 law firm Nichols & Pena on behalf of PacWest Telecom  
8 and the Association of Communications Enterprises.

9 MS. BEWICK: Penny Bewick, New Edge  
10 Networks.

11 MR. SKLUZAK: Corey Skluzak, AT&T.

12 MR. WOLTERS: Richard Wolters, AT&T.

13 MS. ELLISON: Madeira Ellison, Qwest.

14 MS. TERRY: Robin Terry, Qwest.

15 MR. McDANIEL: Paul McDaniel, Qwest.

16 MS. BOUSCAREN: Winslow Bouscaren,  
17 Qwest.

18 MS. BRUNSTING: Judith Brunsting,  
19 Qwest.

20 MR. MUNN: John Munn, Qwest.

21 MS. SCHWARTZ: Marie Schwartz, Qwest.

22 MS. NORCROSS: Michelle Norcross,  
23 Office of Consumer Counsel.

24 MS. STILES: Bridget Stiles, Commission  
25 staff.

1 MR. TROGONOSKI: John Trogonoski,  
2 Commission staff.  
3 MS. NEILSEN: Roxie Neilsen, Public  
4 Utilities Commission staff.  
5 MR. STEELE: Bill Steele, Public  
6 Utilities Commission staff.  
7 MS. QUINTANA: Becky Quintana, staff.  
8 MR. WENDLING: Warren Wendling, staff.  
9 MR. BELLINGER: Witnesses, identify  
10 yourselves.  
11 MS. BEWICK: Penny Bewick.  
12 MR. SKLUZAK: Corey Skluzak, AT&T.  
13 MR. MCDANIEL: Paul McDaniel, Qwest.  
14 MS. BRUNSTING: Judith L. Brunsting,  
15 Qwest.  
16 MS. SCHWARTZ: Marie Schwartz, Qwest.  
17 MR. STEELE: Bill Steele, staff of the  
18 Commission.  
19 MS. QUINTANA: Becky Quintana, staff.  
20 MR. WENDLING: Warren Wendling, staff.  
21 (The above witness were sworn or  
22 affirmed to state the truth.)  
23 MR. BELLINGER: I assume everyone got  
24 the agenda; any changes or suggestions?  
25 MR. MUNN: I don't have any on 272.

1                   One thing with the public interest  
2     piece, it would be my recommendation to address public  
3     interest -- it has competition this afternoon and  
4     public interest in the morning. All of the parties  
5     that have been addressing these issues have done this  
6     together. I think the issues are so interwoven it will  
7     be difficult to segregate the two.

8                   What I would suggest is that once we're  
9     through with 272, we would have, the way it's gone in  
10    every state so far, same way in Arizona, Mr. Teitzel  
11    would give his presentation for Qwest, he would be  
12    subject to cross-examination informal workshop style  
13    but people can ask him questions, then we'd go to  
14    whoever wants to be next, and anybody who has questions  
15    for that person flush out what they had and proceed in  
16    that manner.

17                  The opening of Teitzel would not only  
18    cover TRAC A, which I'm assuming is referred to  
19    as competition, but also public interest.

20                  MR. WOLTERS: Since Gary Witt is  
21    going to be public interest for AT&T and he's not here,  
22    I would suggest we reserve that discussion when we're  
23    done with 272 and he's here. If nobody has any  
24    objections. I'd hate to commit and speak for AT&T on  
25    how the process has worked because I really haven't

1     been there.

2 MR. MUNN: That's fine with us.

3 MR. BELLINGER: We'll discuss it when  
4 we finish 272.

5 MS. NORCROSS: I'm not opposed to it,  
6 but I wasn't planning on -- my public interest  
7 witnesses were going to be here this afternoon, if we  
8 got that far. If we were still on TRAC A they weren't  
9 planning on coming tomorrow. I suspect they'll want to  
10 listen to presentations on public interest.

11 If it looks like the track we're going  
12 to head down, I would ask for some notice in order to  
13 get them here this afternoon.

14 MR. BELLINGER: I would suggest you  
15 probably ought to do that.

16 MR. WOLTERS: I believe our people  
17 are going to be here around 10. I told them it would  
18 probably take an hour and a half, maybe two the most  
19 with 272, so I think they're intending to be here about  
20 10:00.

21 MR. MUNN: Our people are here and  
22 ready as well.

23 MS. NORCROSS: If they're available,  
24 should I have them be here --

25 MR. BELLINGER: Hard to predict.

6

1 MR. MUNN: As far as timing goes, what

2 we had done -- we did it in Washington last week and I  
3 think AT&T and Qwest are the only two parties that  
4 actually had witnesses file testimony on these issues.  
5 We would do our opening statements with Marie Schwartz  
6 and Judy Brunsting do opening presentation; Corey does  
7 opening presentation for AT&T; and then all the  
8 witnesses are available for any questions that anybody  
9 has. Generally there's not a whole lot of questioning.

10 Since we're importing the record from  
11 the multi-state workshop, that's probably the most  
12 succinct method to do this and certainly agreed by AT&T  
13 and Qwest. It's what we've done in every state.

14 MR. BELLINGER: You have experience  
15 with 272. When do you think we'll get to TRAC A and  
16 public interest?

17 MR. MUNN: Barring a lot of questions,  
18 which hasn't happened yet from anybody on 272, I think  
19 we should be done -- if you have them here at 10:30 to  
20 11, we should be through with 272.

21 MS. NORCROSS: That's okay. I'll make  
22 a phone call to them now.

23 The only thing I would ask now as well,  
24 obviously the OCC is not participating in multi-state  
25 and so if there might be questions of my witnesses that

7

1 you-all have answered in other states but we haven't  
2 been party to, I would ask your indulgence to let that

3 be incorporated into this record as well

4 MR. MUNN: We're certainly not  
5 attempting to, I can speak for AT&T and Qwest here,  
6 to limit anybody's questioning of any witness at all.  
7 It's simply to say, we've already hashed out to AT&T's  
8 and Qwest's satisfaction the impasse issues in that  
9 transcript. Instead of rehashing it -- it's a succinct  
10 transcript we can import here, and we're available for  
11 any questions anybody has on any 272 issue.

12 MR. BELLINGER: 272 is pretty much  
13 limited in scope.

14 MR. MUNN: True. It's not  
15 state-specific.

16 MR. BELLINGER: We do need to have it  
17 on the record.

18 MS. WAYSDORF: I know that PacWest  
19 Telecom is intending to have a witness here this  
20 morning so I'm not sure on TRAC A public interest  
21 where he is.

22 MS. QUINTANA: I talked with Ethan and  
23 told him this situation would probably come up and we'd  
24 be done with 272 early. It was my understanding they  
25 would be here by 9 or 10 this morning.

8

1 MS. WAYSDORF: That was my  
2 understanding as well.

3 I had a question on your -- when you  
4 refer to the transcript from the multi-state, that's  
5 what you sent out late yesterday afternoon?

6 MR. MUNN: Right. That was an  
7 oversight. We intended to send the multi-state  
8 transcript. I believe that had already been sent out.

9 Just in checking yesterday and  
10 confirming that everything had been done, Joanne  
11 realized she was out of the office when she had sent  
12 this out to other people in our office to file it with  
13 the commission and she told me it's done, she thought  
14 it was done, and it wasn't, so I apologize to staff,  
15 you, everybody here.

16 MS. WAYSORF: While I printed it out,  
17 I admit to not having had a chance to read it. Perhaps  
18 you could tell us at least what's in it.

19 MR. WENDLING: We ought to back up and  
20 remind ourselves that we still have to mark exhibits,  
21 including testimony, and then mark those.

22 I received several different  
23 e-mails from several different people. Some were from  
24 multi-state, some were identified as Arizona. Maybe  
25 that was for the next workshop. Anyway, we need those

9

1 transcripts, the dates, persons, if they weren't the  
2 entire thing, some kind of identification and an  
3 exhibit number so that easy reference can be made to

4 speed things along.

5 It's almost like when families get  
6 together you tell the same jokes, you don't even tell  
7 the joke, you just tell them by number. I know you  
8 guys are together and you can refer to the jokes by  
9 number and have a good laugh. Rest of us don't even  
10 know the punch line. Please slow down a little and  
11 help us in that fashion, we'll try and keep up.

12 Thank you.

13 MS. BEWICK: I don't know jokes by  
14 number either.

15 Also, as we incorporate some of this  
16 into the record I would echo what Julia said. To the  
17 extent that some of it's from the Arizona record or  
18 other aspects of the record we may not all have  
19 participated in even in the multi-state, it would be  
20 helpful to know not necessarily the total content but  
21 the purpose behind absorbing a lot of the stuff into  
22 the Colorado record that's from a lot of the other  
23 states that some of us consciously decided not to  
24 participate in and all of a sudden are finding  
25 ourselves having to read piles of paper from different

10

1 dockets that we consciously decided not to participate  
2 in.

3 I'd like, as we get to that point,



4 a little bit of an idea as to why I'm having to go  
5 through all this.

6 MR. MUNN: For example, opening  
7 statements -- Marie's opening statement only runs 45  
8 minutes to an hour. This is not -- Judy's is more like  
9 ten minutes because her issues are not as in depth.  
10 This would be a fairly in-depth opening about the 272  
11 issues. It won't be just a shorthand.

12 The design of importing the record  
13 and then not repeating all of that discussion here is  
14 designed to save everyone time. AT&T and Qwest both  
15 agree we want to import the multi-state transcript as  
16 an exhibit anyway, so we're trying for you not to have  
17 a long transcript here rehashing the exact same issues  
18 that are in the multi-state transcript and then you'd  
19 have two transcripts to read. We're trying to keep it  
20 -- if we can avoid the lawyer mistake of saying things  
21 twice, that would do that.

22 MR. BELLINGER: I trust to get on the  
23 record what they think is important.

24 MR. WOLTERS: I really don't think  
25 these issues are all that important for 272 because no

11

1 one else has participated in these issues except AT&T,  
2 Qwest and in some cases staff has had questions.  
3 I don't think this is a real big issue.

4 We're going to put in the multi-state

5 records and I believe John agreed to put in the  
6 exhibits from the multi-state, then we'll give our  
7 opening statements and if there's questions, we'll go  
8 to those questions. I think it's going to be a little  
9 more problematic for public interest, but I don't see  
10 this as an issue in 272.

11 MS. BEWICK: My comments were more  
12 general in terms of yesterday getting a lot of e-mails  
13 that were incorporating transcripts from Arizona as  
14 well as transcripts on general terms and conditions  
15 from Arizona and the multi-state. It's not  
16 272-specific, it's basically all of a sudden we're  
17 getting all of these transcripts in general. I wanted  
18 some clarity as we get to those subjects as to why  
19 we're putting those transcripts in.

20 MR. BELLINGER: You want to mark your  
21 exhibits?

22 MR. MUNN: Sure.

23 7-Qwest-1 would be the November 30,  
24 1999, affidavit of Judith L. Brunsting -- the June 4,  
25 2001, affidavit of Judith Brunsting. That sounds a

12

1 little more recent. It's entitled Supplemental  
2 Affidavit of Judith L. Brunsting.

3 7-Qwest-2 will be the July 9, 2001,  
4 Rebuttal and Response Testimony of Judith L. Brunsting.

5                   7-Qwest-3 will be the June 4, 2001,  
6     Affidavit of Marie Schwartz.

7                   7-Qwest-4 will be the rebuttal  
8     affidavit of Marie Schwartz, dated July 9, 2001.  
9     We also have handouts that we'll go ahead and mark  
10    as exhibits.

11                  This document that has "Conducting  
12    Business Under Section 272," it's Marie Schwartz's  
13    opening presentation. She walks you through this  
14    document. Mark that 7-Qwest-5.

15                  The next document in your stack is this  
16    document that has "Qwest Corp. 10K" annual report at  
17    the top. It's a three-page document that is the Qwest  
18    auditor's opinion. The title of this one will be  
19    "Qwest Auditor's Opinion." 7-Qwest-6.

20                  The next document has "Qwest  
21    Long-distance Internet Posting Record" at the top.  
22    You can mark that as 7-Qwest-7.

23                  Next document, the title is "Qwest  
24    Communications Corporation Internet Posting Record."  
25    Mark that as 7-Qwest-8.

13

1                   This document that has "Qwest  
2    Long-distance Section 272 Affiliate Transactions" on  
3    the first page, we'll mark that as 7-Qwest-9. That's a  
4    snapshot of some of the Internet Web site pages for QLD  
5    from its Section 272 Web site.

6                   The last document in that group  
7       looks similar to 7-Qwest-9 except on the title it has  
8       "Qwest Communications Corporation Section 272 Affiliate  
9       Transactions." That's a snapshot of the 272 Web site  
10      for Qwest Communications Corporation, or QCC.

11                  We can also go ahead and identify the  
12      multi-state transcript so we have an exhibit number.  
13      We can mark the public portion of the -- June 7, 2001,  
14      public version of the 272 treatment will be 7-Qwest-11.  
15      That would be from the multi-state proceeding.

16                  Marked as 7-Qwest-12, the confidential  
17      version of the June 7, 2001, multi-state transcript for  
18      272.

19                  We'll follow the same convention for  
20      the June 8 transcript. 7-Qwest-13 will be the public  
21      version of the June 8th, 2001, multi-state transcript  
22      regarding Section 272 and 7-Qwest-14 will be the  
23      confidential version of the June 8, 2001, multi-state  
24      transcript regarding 272.

25                  Just so there's not any undue alarm,

14

1      that's not all day on June 7 or 8. It would be the 272  
2      pieces but it's not two days of transcripts. We had  
3      other issues interrupting us and 272 didn't start on  
4      7th until sometime after the lunch break.

5                  (Exhibits 7-Qwest-1 through 14 were

6 marked for identification.)

7 MR. WOLTERS: How do you want to mark  
8 the exhibits? Use the identification we used in the  
9 multi-state?

10 MR. MUNN: Yes. The public exhibits  
11 would go with the public version for that day and the  
12 confidential exhibits with the confidential version for  
13 that day under this format, I think.

14 MR. WOLTERS: You'll attach them to the  
15 transcripts when you submit them?

16 MR. MUNN: We've submitted the  
17 transcripts themselves already and filed that. What we  
18 have to file, so the transcript makes sense, is the  
19 exhibits we introduced at the multi-state hearings so  
20 that the reader can --

21 MS. QUINTANA: I suggest we not  
22 redesignate those exhibits; it will be too confusing.

23 MR. MUNN: That way when you read the  
24 multi-state transcript you'll be using the exact same  
25 exhibit numbers you're reading in the transcript.

15

1 MR. WOLTERS: I intend to cite  
2 7-Qwest-11 for the date of the transcript, MES-6.  
3 So that will reference the transcript and the exhibit  
4 as it's referenced in the transcript.

5 MS. QUINTANA: That would be great.

6 MS. DOBERNECK: The transcripts that

7 were served, is it the entire day or just the portion  
8 that relates to 272?

9 MR. MUNN: The portion that relates  
10 to 272.

11 MS. WAYS DORF: The exhibits associated  
12 with the transcript pages haven't been provided to the  
13 rest of us; is that correct?

14 MR. MUNN: Correct. Most of them you  
15 will see in these attachments that we sent out. Some  
16 of them, like the Web site Exhibit 7-Qwest-9 and 10,  
17 have been updated since the multi-state transcript.  
18 It's the same type of exhibits.

19 MS. WAYS DORF: The confidential  
20 versions of the transcript are served by hand on those  
21 of us that have signed nondisclosure agreements; is  
22 that correct?

23 MR. MUNN: Right. It can be mailed.

24 MS. WAYS DORF: Most of us don't have  
25 those with us because we just got the public version

16

1 yesterday via e-mail. So we don't have the  
2 confidential pages yet.

3 MR. MUNN: Correct. I don't think in  
4 any state we've actually had the transcript -- it was  
5 our intent to have the transcript here because it was  
6 my understanding that had actually been filed and we

7 found out yesterday it hadn't been. I don't think AT&T  
8 or Qwest had that filed in any state ahead of time.  
9 We've agreed to incorporate that transcript, the  
10 multi-state.

11 MS. WAYSDORF: If we're going to refer  
12 to any confidential exhibits or confidential portions  
13 of the transcript -- I'm making sure I don't have that  
14 yet. Is that correct?

15 MR. MUNN: Correct. It should not have  
16 included the confidential transcript.

17 MR. BELLINGER: Is that all your  
18 exhibits?

19 MR. MUNN: Yes.

20 MR. WOLTERS: We had affidavit of  
21 Corey W. Skluzak, dated June 25. Some of his pages are  
22 proprietary. Do you want to mark those as a separate  
23 exhibit and then mark it as one? That would be  
24 7-ATT-1.

25 MS. QUINTANA: 15.

17

1 MR. WOLTERS: Okay. That's fine with  
2 me. We'll make it 15.

3 (Exhibit 7-ATT-15 was marked for  
4 identification purposes.)

5 MS. QUINTANA: Staff wants to mark  
6 comments of Roxie Neilsen and John Trogonoski, dated  
7 June 4, 2001, 7-staff-16.

8 (Exhibit 7-Staff-16 was marked for  
9 identification.)

10 MS. SLUZAK: Did staff want to mark  
11 testimony of Neil Langland?

12 MS. QUINTANA: We'll do that when we  
13 start the public interest TRAC A.

14 MR. SKLUZAK: Did have a mention about  
15 272 concerns.

16 MR. WOLTERS: What was the procedure  
17 for responding to the staff Exhibit 7-Staff-16? I  
18 notice they're essentially questions. Was Qwest going  
19 to respond to these as part of their presentation?

20 MR. MUNN: The responses to those  
21 questions are in Ms. Brunsting's rebuttal affidavit  
22 entitled Exhibit No. 7-Qwest-2. It's at the very  
23 end of her rebuttal testimony, Section 10.

24 MR. BELLINGER: You ready, John?

25 MR. MUNN: Yes.

18

1 The first presentation for today will  
2 be Ms. Marie Schwartz.

3 MS. SCHWARTZ: Good morning. Again,  
4 I'm Marie Schwartz and I'm Director and FCC Regulatory  
5 Account Department at Qwest Corporation for the BOC.

6 What I'd like to do is provide an  
7 overview of our compliance with Section 272, as well



8 as an overview of the rules themselves.

9 Before we talk about 272 specifically,  
10 I'd like to review the Qwest corporate names or the  
11 affiliate definitions because they sound fairly similar  
12 and can be confusing. To the extent you have questions  
13 as we go through this presentation about which company  
14 I'm talking about or Ms. Brunsting is talking about,  
15 please feel free to stop us and get that clarified.

16 Qwest Communications International,  
17 Inc., on slide two, is the publicly traded parent of  
18 all Qwest affiliates. QC, the company that I work  
19 for, Qwest Corporation, used to be known as US West  
20 Communications and is the incumbent local exchange  
21 carrier, or BOC. QCC, Qwest Communications  
22 Corporation, was the premerger long-distance arm of  
23 Qwest Corporation and is our new Section 272 affiliate  
24 and we'll be talking extensively about QCC this  
25 morning. That's the company that ultimately provided

19

1 long-distance service once we have 271 relief.

2 Qwest Long-distance, or QLD, was our  
3 old Section 272 affiliate. So we've always had a  
4 compliance Section 272 company.

5 Finally, Qwest Services Corporation  
6 is the parent of both QC, the BOC, and QCC the 272,  
7 estimates referred to as the services company.

8 The next slide is a simplified

9 organization and structure charge which just  
10 illustrates the companies that I was talking about.  
11 Showing, again, that they are separate affiliates of  
12 Qwest Services Corporation.

13 MS. WAYS DORF: In your previous  
14 slide when you described Qwest's long-distance as the  
15 original or old Section 272 affiliate, by that do you  
16 mean the old affiliate of the old US West?

17 MS. SCHWARTZ: We currently have two  
18 Section 272 affiliates. We'll get into that in greater  
19 detail as we go through the presentation. It was the  
20 272 affiliate, used to be called US West Long-distance  
21 before the merger. It exists today as Qwest  
22 Long-distance. We're winding that down and that will  
23 be dissolved sometime in the third or fourth quarter of  
24 this year.

25 MS. WAYS DORF: Thank you.

20

1 MS. SCHWARTZ: Now that we understand  
2 who the BOC is and who the 272s are, and hopefully we  
3 do, let's talk about the separate affiliates -- the  
4 specific 272 requirements.

5 272(a), separate affiliate, means that  
6 the BOC has to offer -- must create a separate company  
7 to offer long-distance from, and we have.

8 272(b) are the structural and

9 transactional requirements that we must operate  
10 the 272 separate from the BOC, and we do.

11 272(c) contains the nondiscrimination  
12 safeguards. We must treat -- the BOC must treat the  
13 272 just like any other interexchange carrier, and we  
14 do.

15 272(d), the biannual audit provisions.  
16 Once we have authority to offer long-distance service,  
17 we're required to obtain a 272 audit every two years  
18 and that will begin one year after we have 271  
19 authority, and we're prepared to do that.

20 272(e), fulfillment of certain requests  
21 contains special nondiscrimination safeguards  
22 provisions that we're prepared to follow.

23 272(f) contain the sunset rules and  
24 that talks about when 272 actually expires.

25 272(g), finally, are the joint

21

1 marketing provisions. Those discuss how we can market  
2 both local and long-distance service together, and  
3 we're prepared to follow those requirements.

4 The next slide is probably the most  
5 important slide of my presentation this morning.  
6 That talks about the significant events or milestones  
7 in our 272 history.

8 The first bullet that I circled on a  
9 chart that appears behind me here, Qwest Long-distance,

10 or US West Long-distance before the merger, has been a  
11 compliant Section 272 subsidiary since the release of  
12 the Act. We have always had a compliance Section 272  
13 subsidiary and that's very important to remember.

14 The next bullet brings us to the  
15 transition in our history when we went through the  
16 Qwest-US West merger. That took place in the latter  
17 half of last year. That created some one-time  
18 challenges and disruptions in our accounting controls  
19 and we'll talk about that a little bit later.

20 After the merger we decided to  
21 change the designation of our 272 affiliate from Qwest  
22 Long-distance to QCC. We made that decision in January  
23 of this year and then we spent the next three months  
24 transitioning QCC to be Section 272 compliant.

25 That brings us to where we are today,

22

1 that QCC is a compliant Section 272 subsidiary as well  
2 as Qwest Long-distance.

3 A little more about Qwest  
4 Long-distance. We plan to operate it as a reseller as  
5 opposed to -- as a reseller, I should say. Again, it's  
6 been compliant since 1996 to the present. We're  
7 planning to dissolve it later this year and  
8 Ms. Brunsting will talk more about that.

9 One more time, Qwest Long-distance

10 establishes a five-year history of Section 272  
11 compliance for Qwest Corporation.

12 Now that we understand the impacts of  
13 long-distance as a compliant Section 272 subsidiary for  
14 five years, let's talk about the Qwest merger.

15 As most if you know, it had significant  
16 impacts on all operational areas of our business. It  
17 was a merger between two very different multinational  
18 companies. One was a local service provider, the other  
19 a long-distance company. It required the integration  
20 of a nonregulated culture with a regulated culture.  
21 Again, it triggered a decision in the third quarter of  
22 last year for us to reassess our designated Section 272  
23 affiliate. Then it also created some one-time  
24 disruptions in our accounting controls.

25 We realize that a merger of this size

23

1 would trigger some one-time disruptions and we  
2 were ready with strength and controls and we made  
3 corrections immediately as they became known. As a  
4 matter of fact, almost all of the discrepancies that  
5 appear in AT&T's testimony were discovered by Qwest's  
6 internal controls and provided to AT&T a summary  
7 control report, and those discrepancies were  
8 subsequently corrected in the following month.  
9 We'll talk about those as well.

10 The Qwest merger resulted in strategic

11 and employee realignments and other operational  
12 arrangements we had to execute in compliance with all  
13 federal and state regulation.

14 What were the impacts of the Section  
15 272 transition, the merger resulted in a decision to  
16 change our designated 272 affiliate. The new Section  
17 272 affiliate, Qwest Communications Corp., was  
18 identified or named in January of last year -- 2001,  
19 January of this year.

20 Again, QCC will be a facilities-based  
21 provider versus a reseller by Qwest long-distance.  
22 We had to overlay the Section 272 controls that we had  
23 in place at Qwest Long-distance onto QCC and then we  
24 further strengthened those controls through learnings  
25 that we had in the Qwest merger transition. We turned

24

1 up QCC as a compliant Section 272 affiliate on March 26  
2 of this year. Congress gave the BOCs one year to make  
3 their 272 affiliates compliant when they released the  
4 Act. We made QCC a compliant 272 subsidiary in just  
5 three months, all while maintaining Qwest's  
6 Long-distance as a compliant 272.

7 Now that we understand how the merger  
8 transition in the Section 272 transition for QCC  
9 created some one-time disruptions in our processes,  
10 let's talk about the specific and critical 272

11 requirements.

12 AT&T was the only party which commented  
13 on Qwest Corp.'s ability to comply with Section 272.  
14 They raised concerns in the following area -- with the  
15 exception of staff here who identified some additional  
16 questions that Ms. Brunsting responded to in her  
17 rebuttal testimony.

18 272(a), separate affiliate requirement;  
19 (b), the structural and transactional rules; (c), the  
20 nondiscrimination safeguards; (e), fulfillment of  
21 certain requests; and (g), the joint marketing  
22 provisions. We're prepared to offer evidence in this  
23 proceeding to show the existence of controls to satisfy  
24 compliance in each of those key areas of 272.

25 272(a), separate affiliate requirement.

25

1 We can only offer in-region interLATA through a  
2 separate long-distance company and we've created that  
3 company. We satisfied this requirement by establishing  
4 QCC as a Section 272 affiliate. QC, the BOC, and QCC  
5 the 272 are separate affiliates of Qwest Services  
6 Corporation, or QSC. We talked about that earlier and  
7 we can see that on the org chart that appears behind  
8 me.

9 QC doesn't own any stock in the 272  
10 QCC, nor does QC own stock in the BOC. We've satisfied  
11 the FCC's prima facie test for compliance with 272(a)

12 from their previous 271 approval orders.

13 MS. WAYS DORF: Flipping back to your  
14 org chart, one on the top, are both Qwest Corporation,  
15 the BOC, and Qwest CC wholly owned subsidiaries of  
16 Qwest Services Corporation?

17 MS. SCHWARTZ: That's correct.

18 MS. WAYS DORF: Wholly owned?

19 MS. SCHWARTZ: That's correct.

20 MS. SCHWARTZ: Any other questions?

21 Moving on to 272(b), that's on slide  
22 11, the structural and transactional rules. This  
23 Section creates the structural separation between QC,  
24 the BOC, and QCC the 272. It assures the two companies  
25 are operating independently and that the 272 is not

26

1 receiving any preferential treatment that would give  
2 them an unfair advantage in the market.

3 We can demonstrate compliance readiness  
4 in the five key provisions designed to ensure that  
5 separateness: Number one, that we operate  
6 independently; number two, that we have separate books,  
7 records and accounts; number three, that we have  
8 separate officers, directors and employees; four, that  
9 there's no recourse to BOC assets; and five, that all  
10 of our transactions are arm's length reduced to bring  
11 and posted on the Internet.



12 MR. MUNN: Whenn you say there's  
13 "no recourse to BOC assets," recourse by whom?

14 MS. SCHWARTZ: Recourse by the 272 --  
15 creditors of the 272. That's laid out in the slide.

16 MS. SCHWARTZ: 272(b)(1), operate  
17 independently. QC, the BOC, and QCC the 272 cannot  
18 and do not jointly own any network facilities or the  
19 land or buildings on which those facilities are placed.  
20 There can be no transfer of any network facilities from  
21 QC, the BOC, to QCC the 272, there can be no operation,  
22 installation or maintenance, or OI&M, on QC or the  
23 BOC's facilities by the 272. Conversely, there can be  
24 no OI&M performed on QCC's or the 272 facilities by the  
25 BOC or any other Qwest affiliate, for that matter.

27

1 QC cannot provide any discriminatory access to network  
2 service. We've satisfied the operate independently  
3 requirement by monitoring all of our network assets  
4 transfers and through the extensive training we've  
5 conducted with our network leaders and staff personnel.  
6 QC doesn't perform any OI&M for QCC or vice versa.  
7 AT&T did not dispute our compliance with 272(b)(1).

8 (b)(2), separate books, records and  
9 accounts. QCC, the 272, must maintain books, records,  
10 and accounts that are separate from the books, records,  
11 and accounts of the BOC, or QC. QC, the BOC, uses  
12 separate financial system, controls, edits, and we have

13 separate general ledger systems that are maintained at  
14 separate locations that Ms. Brunsting can talk about in  
15 a little more detail. QC, the BOC, has a separate  
16 chart of accounts from QCC the 272.

17 AT&T contested our compliance with  
18 (b) (2) but agrees we have separate charts of accounts,  
19 and those were filed in my direct testimony and also  
20 the testimony of Ms. Brunsting, and those were marked  
21 as exhibits 7-Qwest-1 and 7-Qwest-3. They also  
22 understand that we use separate versions of PeopleSoft  
23 and that those separate softwares are maintained at  
24 separate physical locations. So their concerns are  
25 unfounded. We have sufficient processes in place to

28

1 maintain separate books, records, and accounts and we  
2 satisfied the FCC's test from previous approval orders.

3 Another issue that came up in AT&T's  
4 testimony was compliance with GAAP. What's important  
5 to remember here, all publicly traded companies are  
6 required to follow GAAP. The parent and QC, the BOC,  
7 undergo regular financial statement audits. As most of  
8 you know, the BOC starts with GAAP, Generally Accepted  
9 Accounting Principles, and we overlay additional FCC  
10 and Colorado state-specific requirements. GAAP uses  
11 materiality in assessing compliance. AT&T has  
12 maintained that it's inappropriate to use materiality

13 when assessing GAAP, but even the FCC recognized the  
14 use of materiality in GAAP in Part 32.26. FCC  
15 Part 32.26 is a cite to the FCC rules, for those  
16 of you who aren't familiar with that cite.

17 All Qwest companies are required  
18 to follow GAAP, and they do. We have dozens of  
19 professional accountants employed by the company to  
20 ensure we follow GAAP. That's part of my job. We also  
21 have an unqualified audit opinion from the company's  
22 auditors for QC, the BOC, and QCI. We entered those as  
23 Exhibits 7-Qwest-6. 7-Qwest-6, the first page is the  
24 audit opinion of Arthur Anderson for Qwest Corporation,  
25 the BOC. The following two pages contain the auditor's

29

1 opinion for QCI, the parent company, showing that the  
2 two companies follow GAAP.

3 Moving on to 272(b)(3), separate  
4 officers, directors, and employees. Again, QC,  
5 the BOC, and QCC the 272 must have separate officers,  
6 directors, and employees. Any BOC employee who  
7 performs functions for the 272 is required to report  
8 their activity so that QCC can be billed appropriately  
9 under FCC pricing rules found in Part 32.27.

10 AT&T contested our compliance with  
11 (b)(3) due to pre-272 transition structure and loaned  
12 employee practices. We voluntarily modified our loan  
13 employee practices to limit the duration to four

14 months. We've satisfied the FCC's test used in both  
15 New York and Texas for compliance with separate  
16 officers, directors, and employees by making our  
17 officer list public filed in our testimony, by  
18 comparing payroll registers to ensure that no employee  
19 appears on both payroll simultaneously, and by having  
20 strict employee transfer and hiring policies that spell  
21 out the 272 requirements as well as maintain the  
22 confidential information of the BOC.

23 272(b)(4) I'll touch on briefly.  
24 Again, that creditors of QCC the 272 may not have  
25 recourse to the assets of QC and BOC and they do not.

30

1 We satisfied the no recourse requirement of Section 272  
2 by reviewing all of our debt agreements, and I was a  
3 part of that review through extensive training efforts  
4 to ensure those requirements are understood and  
5 complied with. AT&T did not dispute our compliance  
6 with 272(b)(4).

7 272(b)(5) is probably the most  
8 contested area of compliance with Section 272.  
9 That requires that transactions be at arm's length, in  
10 writing, and posted to the Internet. All transactions  
11 between the 272 and the BOC must be reduced to writing  
12 and we've documented those by tariff, by standalone  
13 agreement, or by service agreement. All transactions

14 between the two companies must be posted to the  
15 Internet within 10 days, and they are. Rates, terms,  
16 and conditions of every transaction must be made  
17 publicly available to ensure that the accounting  
18 safeguards are being maintained and to make them  
19 available under the same rates, terms, and conditions  
20 to third parties. All transactions on the Web site are  
21 reviewed by the Section 272 compliance oversight team  
22 of which I'm a member, and we fashioned our oversight  
23 team after SBC's compliance committee.

24 We've satisfied the Section 272 (b) (5)  
25 requirements by documenting all of our transactions,

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1 conducting them subject to the Part 32.27 FCC pricing  
2 rules, and posting them to the Internet within 10 days.  
3 We reconcile all of our transactions to the cost  
4 allocation manual, we reconciled them to the CAM audit  
5 spread sheets and to the ARMIS reports which are filed  
6 at the FCC on an annual basis. This is consistent with  
7 the FCC's test where (5) (b) compliance in previous 272  
8 approval orders.

9 More about the 10-day posting  
10 requirement. AT&T maintained we should have posted  
11 transactions for QCC even before it was named a 272  
12 affiliate in January of 2001. They also ignored our  
13 need to make the 272 -- the new 272 affiliate 272  
14 compliant. Again, that took us about three months

15 to ensure.

16 Qwest has always met the 10-day  
17 requirement for Qwest Long-distance, our old 272  
18 affiliate, and we continue to meet the 10-day  
19 requirement for QCC, our new 272 affiliate, since we  
20 turned up the QCC or new 272 Web site on March 26th  
21 of this year.

22 We can go to two exhibits that were  
23 provided in this proceeding, 7-Qwest-7 and 7-Qwest-8.  
24 7-Qwest-7 is the Qwest long-distance Internet posting  
25 record and that basically computes the time interval

32

1 between the date the document was signed or executed  
2 and the date we posted it. If you go down to the  
3 bottom right-hand corner you can see that the average  
4 posting time for QLD transactions was 6.7 days.

5 Moving on to 7-Qwest-8. It's laid out  
6 in pretty much the same fashion. That is the Internet  
7 posting record for QCC, the new 272 affiliate. Again,  
8 computing the days between the days that ensued between  
9 when the agreement was executed and when it was posted  
10 to the Internet, for QCC we had an average posting time  
11 of 4.7 days. In both cases clearly below the 10-day  
12 posting requirement.

13 MS. JENNINGS-FADER: For clarification,  
14 is that calendar days or business days?

15 MS. SCHWARTZ: Calendar days.

16 MS. JENNINGS-FADER: Thank you.

17 MS. SCHWARTZ: Moving on, more about  
18 (b)5. Sufficiency of posting detail.

19 The FCC gave us guidance in the  
20 Bell Atlantic New York order where they rejected AT&T's  
21 assertion that Bell Atlantic standout postings did not  
22 contain sufficient detail to show that Bell Atlantic  
23 would comply with 272(b)(5). That can be found in  
24 paragraph 13. The FCC concluded that the following  
25 must be posted: Number and type of personnel assigned

33

1 to the project, level of expertise of such personnel,  
2 any special equipment used to provide the service,  
3 and the length of time required to complete the  
4 transaction.

5 AT&T has maintained that we should post  
6 actual transaction involvement. For example, to the  
7 extent we have a human resource service posted with the  
8 appropriate rate, terms, and conditions that include  
9 number and type of personnel, level of expertise and so  
10 forth, they also would like us to post confidential  
11 information that will show how many employees have  
12 actually purchased the human resource service.

13 The FCC concluded that volume doesn't  
14 have to be posted to the Internet.

15 MR. WOLTERS: What paragraph is that?

16 The SBC Texas?

17 MS. SCHWARTZ: I believe it would be on  
18 or around 4-13, but I can verify that for you. That  
19 should be in my testimony.

20 MR. WOLTERS: Okay. That's fine.

21 MS. SCHWARTZ: That's New York. I can  
22 get back to you with that, Mr. Wolters, but I believe  
23 it's in my direct testimony.

24 We do satisfy the FCC's requirement for  
25 sufficiency and we can refer to two more exhibits in

34

1 this proceeding today, 7-Qwest-9 and 10.

2 7-Qwest-9 comes from the Qwest  
3 long-distance or old 272 affiliate Web page. The first  
4 page provides an overview of the Web site. I'll walk  
5 you through the document and you can read this at your  
6 leisure. The next few pages contain the current  
7 transactions or transactions that are in effect today;  
8 the master services agreement, for instance, which  
9 provides general guidelines as to how the two companies  
10 will conduct their business, and then actual work  
11 orders and task orders or the specific agreements that  
12 have been executed between the two companies.

13 The same sort of detail is available in  
14 7-Qwest-10 for QCC, the new 272 affiliate. An overview  
15 page that basically describes the companies and the



16 Internet site -- on the third page of that exhibit you  
17 can see the actual work orders and task orders that are  
18 currently in effect today and you'll find quite a bit  
19 more volume on the QCC Web site since we've been  
20 winding down LB, the old 272 affiliate. Then examples  
21 of services that are actually being provided today in  
22 the case of QCC, there are descriptions for human  
23 resource services and then also for the shared space  
24 and furniture rental agreements.

25 Moving on that to slide 20. What has

35

1 our performance been with regard to accuracy with our  
2 transactions for QCC and posting those to the Internet?  
3 The FCC has historically measured accuracy in terms of  
4 discrepancies between the prices that are posted on the  
5 Web and the prices that are actually billed back and  
6 forth between 272 affiliate and the BOC.

7 In the chart that I provide here,  
8 you can see the 272 transition period, the January,  
9 February, March time frame that we talked about earlier  
10 when we were making QCC 272 compliant. The first month  
11 we actually had accounting data to review was in the  
12 March time frame. In March we had a discrepancy rate  
13 between what we had posted on the Web and what we  
14 actually were preparing to bill of 12 percent. We  
15 expected some one-time problems that first month, and  
16 we were ready with strength and controls and we had

17 additional staff ready to review transactions. We've  
18 gotten our discrepancy rate down to zero in April,  
19 to zero in May, and preliminary review of June data  
20 appears very good as well. As soon as that's  
21 available, we'll provide that to AT&T and update the  
22 record.

23 We reconcile all of our transactions  
24 with our 272 companies on a monthly basis, both what  
25 we bill and accrue. We adjust any differences in the

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1 month following discovery.

2 Once again, we did expect issues in  
3 the first month of processing, but we were ready with  
4 strength and controls and we've gotten our discrepancy  
5 rate down to zero.

6 The best way to sum up Section  
7 272(b)(5) is with more guidance from the FCC and  
8 SBC Texas where they said that BOCs must demonstrate  
9 that they have internal control mechanisms that are  
10 reasonably designed to prevent as well as detect and  
11 correct any known compliance with Section 272. We've  
12 demonstrated that we have the appropriate controls in  
13 place to satisfy both the FCC and state requirements.

14 Is there a question?

15 MS. QUINTANA: Yes, please. Could we  
16 go back one slide to the listing that the FCC concluded

17 must be posted to the Internet and compare that with  
18 7-Qwest-8 which I assume is where this information is  
19 supposed to be. Could you go through the FCC list with  
20 me and tell me where on 7-Qwest-8 this information is  
21 found.

22 MS. SCHWARTZ: 7-Qwest-9 and 10.

23 MS. QUINTANA: How does 7-Qwest-8  
24 compare or what is that information --

25 MS. SCHWARTZ: The purpose of 7-Qwest-8

37

1 is an internal control to ensure we're posting within  
2 10 days.

3 MS. QUINTANA: This is just for the  
4 10-day -- within a 10-day time requirement to show  
5 that?

6 MS. SCHWARTZ: That's correct.

7 MS. QUINTANA: The detailed information  
8 on the type of personnel and number and all of that  
9 would be in 7-Qwest-9 and 10?

10 MS. SCHWARTZ: That's correct.

11 MS. QUINTANA: Thank you.

12 MS. WAYS DORF: Is 7-Qwest-8 itself on  
13 the Internet or is that an internal Qwest document and  
14 7-Qwest-7?

15 MS. SCHWARTZ: Those are internal Qwest  
16 documents, but I do believe there are some separate  
17 posting summaries on the Web site as well that would

18 allow you to basically compute that information.

19 That information is publicly available.

20 MS. QUINTANA: Do you happen to know,  
21 or does anyone else, that that is a PID, that 10-day  
22 time frame?

23 MS. BEWICK: I don't believe it is.

24 MS. WAYS DORF: Following up on Becky's  
25 question. I picked 7-Qwest-9; I assume it doesn't

38

1 matter if I picked 9 or 10 -- I guess the exact  
2 you've provided as the master services agreement or  
3 the representative posting? I want to make sure I  
4 understand what 7-Qwest-9 is, so I would be able to  
5 find for the master services agreement the information  
6 that's listed on your slide 19 of 7-Qwest-5 such as  
7 number and type of personnel, level and expertise of  
8 such personnel.

9 MS. SCHWARTZ: Talk about that in a  
10 little more detail.

11 The master services agreement provides  
12 general guidelines. If you look through that, they're  
13 general guidelines as to how the two companies will  
14 conduct business together. I think as an attorney a  
15 lot of this will look familiar to you; just general  
16 contract language as to how they conduct business  
17 together.

18                   Once the master services agreement is  
19           in place, we put together what are called work orders  
20           and task orders for the specific transactions or  
21           specific services provided to the companies. For  
22           instance, in the case of Qwest's long-distance, in  
23           7-Qwest-9 the work order listed -- are you tracking  
24           with me?

25                   MS. WAYS DORF: Yes.

39

1                   MS. SCHWARTZ: On that third page of 9  
2           we see a work order for finance services. That's the  
3           specific service being provided in this case under  
4           those general agreements. When the 272 provided  
5           service to the BOC, there's a services agreement in  
6           place that, again, lists those general terms that the  
7           companies will conduct business under and then there  
8           are tax quarters which list out the specific services  
9           the two companies are providing. I suspect that most  
10          people would be interested in that transaction detail  
11          would want to look at the work orders and the task  
12          orders.

13                   MS. WAYS DORF: The work order and the  
14           task order are available in their entirety on the Web  
15           site--that was not my understanding of your previous  
16           testimony--or are they?

17                   MS. SCHWARTZ: Yes, they are. It is  
18           required that the rates, terms and conditions be public

19 and be on the Internet, and they are. For every work  
20 order or task order in place between the 272 and QC,  
21 you will find those publicly available.

22 MS. WAYSDORF: Right. But you've  
23 chosen to comply with that requirement by pulling  
24 certain information out of the work order or task order  
25 itself and put those on the Internet, or is the entire

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1 work order on the Internet?

2 MS. SCHWARTZ: The entire work order.

3 MR. WOLTERS: If you look at 7-Qwest-9,  
4 I believe it's the -- there's the master service  
5 agreement amendment number 3. I notice that if you go  
6 to 7-Qwest-7, the master services agreement amendment  
7 number 3 is not reflected as an expired agreement.  
8 I notice that if you look at this it says here that  
9 this is supposed to replace the initial agreement in  
10 its entirety. I also know in the recitals you also  
11 refer to an amendment number 1 dated July 1, 1996, and  
12 it refers to the amendment number 2 dated April 3,  
13 1998. I don't see any of those earlier master services  
14 agreements listed under expired agreements.

15 MS. SCHWARTZ: I would have to  
16 investigate that.

17 MR. WOLTERS: The next question I have  
18 is, you have master service agreement and you have no

19 signed date and date posted and removal date. I assume  
20 that's the heading that's in bold. Is master services  
21 agreement intended to be a heading on 7-Qwest-7?

22 MS. SCHWARTZ: I believe so, that's  
23 correct.

24 MR. WOLTERS: What I'd like to do is  
25 have the list updated or have you determine the signed

41

1 dates, end date, and date posted and removal dates for  
2 master service agreement -- original master service  
3 agreements amendments 1 and 3 and also for the service  
4 agreement. I see an amendment 3 and I do not see any  
5 amendments 1 and 2, nor do I see the original service  
6 agreement under expired agreements. I was wondering if  
7 that information is available.

8 MS. SCHWARTZ: I'm certain it is.  
9 I would have to investigate that further.

10 MR. WOLTERS: Could you do that.  
11 I think it would be helpful to fill out your list.  
12 The reason I ask that is that, at note 1 it says that  
13 Qwest Long-distance Web site was activated on 9-28-98.  
14 Agreements existing prior to that date were not posted  
15 until site activation on 9-28-98. I would like to make  
16 sure we do have all the agreements that go back to 1996  
17 reflected on this exhibit.

18 MS. SCHWARTZ: That would be subject to  
19 investigation, but I'm relatively certain that they

20 have been.

21 I believe we've discussed this  
22 previously, the Web site was turned up in 1998 after  
23 the accounting safeguards order was released and that  
24 sort of thing. This document is intended to be  
25 representative of all transactions with Qwest

42

1 Long-distance and the relative posting time. To the  
2 extent you had a question on those three amendments  
3 relative to the master services agreement, I would need  
4 to investigate that because this is intended to be  
5 all-inclusive.

6 MR. WOLTERS: If you look at amendment  
7 1, dated July 1996--that's after the Act--your footnote  
8 says you were trying to go back to the date of the Act  
9 and incorporate any agreement. I'd like to make sure  
10 this list is complete even if it would require you to  
11 file a late-filed exhibit.

12 One other note. I know this is a  
13 cleanup. In the multi-state if you look at your Qwest  
14 LD exhibit there probably was only, like, four or five  
15 entries. I'd like to talk to you about how we can  
16 supplement the record in the multi-state with this  
17 updated exhibit.

18 MS. SCHWARTZ: We did. For some reason  
19 -- it was a two-page exhibit at that time and only the



20 second page was copied or something like that. So we  
21 did update the record to include the entire exhibit in  
22 the multi-state. So we should be able to follow up on  
23 that.

24 MR. WOLTERS: We'll talk off line about  
25 that. Thank you.

43

1 MS. DOBERNECK: I have a couple  
2 questions about slide 20. You testified that you  
3 expected issues in the first one. Can you tell me what  
4 the source or basis of the 12 percent discrepancy was.

5 MS. SCHWARTZ: The discrepancies  
6 represent any difference between the price that we had  
7 posted on the Internet and the price that we actually  
8 billed. For instance, if QC--I'm making this up--the  
9 BOC was provided human resource services to the 272 and  
10 we had a price of \$30 an hour posted on the Internet  
11 for, say, the first level manager and we actually  
12 billed \$29 and \$95 an hour, then we would call that out  
13 as a discrepancy and either correct the Web site or the  
14 billing as appropriate. We'd correct the billing to  
15 ensure we posted what was on the Web site.

16 MS. DOBERNECK: The discrepancy was due  
17 to a difference between what you had in the contract  
18 and what was manually put into the Web site? When you  
19 say there's a discrepancy, what it is, sounds like what  
20 you're talking about the difference in pricing and I

21 want to confirm that's what the case is.

22 MS. SCHWARTZ: That is correct. That  
23 difference could be caused by the example you just gave  
24 or it could be caused by the fact somebody key punched  
25 in an incorrect number. Any manual process along the

44

1 line could trigger a discrepancy, so we wanted to make  
2 sure we billed exactly, because that's what's required,  
3 exactly what was on the note.

4 MS. DOBERNECK: What's posted, is that  
5 typically monthly billings, or one-time-only billings  
6 that also get start reported or included in the Web  
7 site, or is it all billings, period?

8 MS. SCHWARTZ: It would be any  
9 contract or any service or any transaction, as the  
10 FCC is calling it, which would include rates, terms  
11 and conditions. So if we, for instance, if we are  
12 providing human resource service, the same service  
13 every month, we post it once with the sufficient rates,  
14 terms and conditions. Behind the scenes, we would be  
15 willing on a monthly basis exactly what we say we have  
16 on the Web.

17 MR. MUNN: If that rate changed, that  
18 would be updated, the rates, terms, and conditions?

19 MS. SCHWARTZ: That's correct. Any  
20 change in the rates, terms, and conditions would be

21 required to be posted within 10 days of when it was  
22 executed.

23 MS. DOBERNECK: Were there any new  
24 transactions in April and May that were not also in  
25 March?

45

1 MS. SCHWARTZ: I believe there were.  
2 We'd be able to see those probably on 7-Qwest-7 and 8.

3 Most likely, for instance, I suspect  
4 that there were probably not any or very, very minimal  
5 transactions that would have taken place with Qwest  
6 Long-distance, since we're winding that down.

7 MS. DOBERNECK: I could determine  
8 that based on 7-Qwest-7 or 8 whether they're new  
9 transactions or April or May?

10 MS. SCHWARTZ: Right. For instance, on  
11 the bottom of 7-Qwest-8, very last item, we posted an  
12 asset transfer, the transfer of desktop computer  
13 equipment, on the 30th of April.

14 MS. DOBERNECK: What we're looking at  
15 is the signed date for purposes of determining new  
16 transactions, just to be clear?

17 MS. SCHWARTZ: Correct. Once the  
18 transaction is signed or executed by both parties,  
19 then it's required to be posted.

20 MS. DOBERNECK: Okay. Thank you.

21 MR. BELLINGER: Could you identify

22       yourself.

23                       MR. SUMPTER:   I'm John Sumpter with  
24       PacWest Telecom.

25                       (Mr. Sumpter was sworn to state the

46

1       whole truth.)

2                       MR. SUMPTER:   Is the information in  
3       7-Qwest-7 and 8 available?   I heard you say earlier  
4       that it's not available on the Internet; that it's an  
5       internal set of documents.

6                       MS. SCHWARTZ:   I would characterize  
7       it as -- I'm fairly certain that a version of this is  
8       available.   You can see the executed date and you can  
9       see the posted date, and I believe when the transaction  
10      is terminated I'm not sure if the calculation actually  
11      falls out.   But this information is available --  
12      version of this information.   You can see when the  
13      transaction was posted and you can see when it was  
14      executed.   But this document, these exhibits, are  
15      actually internal control documents that don't appear  
16      exactly on the Web site.

17                      MR. SUMPTER:   Are these internal  
18      control documents used in the normal course of  
19      business by Qwest managers?

20                      MS. SCHWARTZ:   Yes, they are.

21                      MR. SUMPTER:   Thank you.

22 MR. MUNN: The information that's  
23 contained on the Web site contains the information  
24 that's shown on 7-Qwest-7 and 8, it's just these  
25 two exhibits, 7 and 8, were simply put together for

47

1 reference for summary purposes?

2 MS. SCHWARTZ: That's correct.

3 MS. JENNINGS-FADER: I'd like to make a  
4 request. My copy of 7-Qwest-8 is literally illegible,  
5 so I'd like, to the extent that one might have a  
6 clearer copy than has been circulated, since I assume I  
7 didn't get the worst one on purpose, I'd like to have  
8 new copies.

9 MS. SCHWARTZ: Certainly.

10 MS. JENNINGS-FADER: I'd like to start  
11 with 7-Qwest-7 and I want to go -- because that's one I  
12 can read. First, is the same information contained --  
13 are the same columns of information on 7-Qwest-7 and on  
14 7-Qwest-8?

15 MS. SCHWARTZ: They sure should be.  
16 There's an additional explanation column on 7-Qwest-8  
17 that basically, in all cases, explains that. The QCC  
18 Web site wasn't turned up until March 26th. Otherwise  
19 they are the same.

20 MS. JENNINGS-FADER: If we could start  
21 across each column, now that I know they're the same.  
22 Stick with 7-Qwest-7.

23                   Where on the Internet is the agreement  
24       found? You said some but not all of the information  
25       which is on the internal Qwest control document, which

48

1       is 7-Qwest-7, is found on the Internet. I want to know  
2       what is found on the Internet and what is not. Is the  
3       information under the agreement column found on the  
4       Internet?

5                   MS. SCHWARTZ: Yes. All the  
6       information about the agreements is on the Internet in  
7       sufficient detail to comply with the FCC's requirements  
8       on rates, terms, and conditions. Every single one of  
9       these agreements. Is that making sense?

10                  MS. JENNINGS-FADER: I understood  
11       your testimony to be that the agreement itself is not  
12       posted to the Internet but that some synopsis or  
13       identification of the agreement is posted to the  
14       Internet. Is my understanding correct?

15                  MS. SCHWARTZ: No, it is not.

16                  MS. JENNINGS-FADER: The entire  
17       agreement is posted?

18                  MS. SCHWARTZ: That's correct.

19                  MS. JENNINGS-FADER: I want to know,  
20       what information is or is not posted to the Internet  
21       that is found on 7-Qwest-7? The answer to my question  
22       is, the agreement column, that information is posted to

23 the Internet, correct?

24 MS. SCHWARTZ: Yes.

25 MS. JENNINGS-FADER: The signed date is

49

1 or is not posted to the Internet?

2 MS. SCHWARTZ: Yes.

3 MS. JENNINGS-FADER: It is?

4 MS. SCHWARTZ: Yes, it is posted to the  
5 Internet.

6 MS. JENNINGS-FADER: The end date is or  
7 is not posted to the Internet?

8 MS. SCHWARTZ: Yes, it is.

9 MS. JENNINGS-FADER: The date posted is  
10 or is not known from looking at the Internet?

11 MS. SCHWARTZ: I believe it is, yes.

12 MS. JENNINGS-FADER: Removal date, what  
13 does that mean?

14 MS. SCHWARTZ: That is the date that  
15 it's removed from the Internet and paper copies are  
16 left at the company's place of business place of  
17 business. Subject to check, I believe every single  
18 item is listed on the Internet with the exception of  
19 maybe the second to the last column and the last  
20 column.

21 MS. JENNINGS-FADER: For purposes  
22 of the record, that would be removal date and signed  
23 to post days, correct? Those are the two pieces of

24 information which one could not find on the Internet  
25 but that's contained in 7-Qwest-7, correct?

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1 MS. SCHWARTZ: That's correct.

2 I believe--I would have to check on this--having made  
3 that observation previously myself, have requested that  
4 the folks in charge of the Web site do go ahead and  
5 allow that computation to occur so you don't have to  
6 do it manually.

7 MS. JENNINGS-FADER: By "computation"  
8 you're referring to the column signed to post days?

9 MS. SCHWARTZ: That's correct.

10 MS. JENNINGS-FADER: Footnote under  
11 removal date, there's an asterisk and a footnote.  
12 The footnote reads, "Internet postings will be  
13 maintained during the term of the contract and for a  
14 period of one year thereafter unless the contract is  
15 superseded or replaced. In such cases, the contract  
16 will be removed once the superseding or replacement  
17 contract has been posted. Removal dates are subject  
18 to change if contracts are renewed or extended during  
19 extend amendments period."

20 I have a series of questions about the  
21 footnote. I am unclear as to the following. The first  
22 sentence says that the "postings will be maintained  
23 during the course of the term of the contract and for



24 a year thereafter unless the contract is superseded or  
25 replaced." Does that mean -- what does that mean?

51

1 What happens to the postings of the original contract  
2 which are superseded or replaced?

3 MS. SCHWARTZ: Paper copies are  
4 maintained at the company's place of business should  
5 anyone need or request to review those.

6 MS. JENNINGS-FADER: Am I also correct  
7 that there would be nothing on the Internet except  
8 perhaps something if it says amendment to or the master  
9 services agreement amendment to, master services  
10 agreement amendment 3, that would let one know that  
11 there was a prior contract which has now been  
12 superseded or replaced?

13 MS. SCHWARTZ: I believe the way  
14 the Web site is structured today that you would have  
15 visibility to the prior amendments. However, to the  
16 extent that those prior contracts are no longer in  
17 place, I guess it would be interesting from a  
18 historical perspective, but you wouldn't be able to --  
19 if those are not the current rates, terms, and  
20 conditions being offered, then a third party wouldn't  
21 be able to avail themselves of those rates, terms, and  
22 conditions if they were no longer being used. Does  
23 that make sense?

24 MS. JENNINGS-FADER: I understand the

25 position.

52

1 The answer to my question is that one  
2 would or wouldn't know about the existence of the prior  
3 contract?

4 MS. SCHWARTZ: I believe that you  
5 would.

6 MS. JENNINGS-FADER: How would one know  
7 that?

8 MS. SCHWARTZ: I'd have to double check  
9 that.

10 MS. BRUNSTING: If you'll take a look  
11 at Exhibit 7-Qwest-9, and I'm on the fifth page back  
12 and the fourth page is master services agreement.  
13 This has to be a Qwest Long-distance example. However,  
14 I'm very familiar with the fact that any amendment  
15 that's been signed, it's posted in its entirety.  
16 The first clause of that amendment will give you a  
17 reference to the fact as to when it has been amended  
18 and what the original date was.

19 MS. SCHWARTZ: Thank you,  
20 Ms. Brunsting. I thought that might be the case.

21 MR. MUNN: You were answering a  
22 question about the signed to post days column on  
23 Exhibit 7-Qwest-7 not being just identified or posted  
24 on the Internet, but you've also testified that the

25 signed date and the date posted are contained on the

53

1 Web site, correct?

2 MS. SCHWARTZ: That's correct.

3 MR. MUNN: The information to derive  
4 what the signed to post days is provided on the Web,  
5 there's simply not -- you haven't done the math on the  
6 Web, subtracting the two numbers. They're provided  
7 there for anyone who would want to see them?

8 MS. SCHWARTZ: That's correct today,  
9 Mr. Munn. I believe there's a request for an  
10 enhancement in place to do that.

11 MS. WAYS DORF: By saying it's available  
12 on the Internet, does that mean we could go and find  
13 the agreement itself, find the date that the agreement  
14 was executed presumably by going to the last page of  
15 the agreement, and then somehow determine by looking  
16 at the page that that agreement was post order a  
17 particular date and then we would compare the two, or  
18 is there some sort of a summary or a cover page that  
19 says agreement executed July 5, posted July 10, or do  
20 we need to go through each agreement and do the  
21 determination?

22 MS. SCHWARTZ: I believe there's a  
23 summary page.

24 MS. BEWICK: Ms. Doberneck asked you a  
25 question about the discrepancy piece you were talking

1       about. You had indicated a discrepancy could come up  
2       for a manual input error, which I can understand.  
3       You also said something about, for instance, pricing  
4       the rate that the contract might have stated was \$30  
5       an hour but for some reason only \$29 an hour would be  
6       billed. If the contract was \$30 an hour, why would you  
7       bill \$29 an hour?

8                   MS. SCHWARTZ: My experience has been  
9       just based on some miscommunication that may have taken  
10      place and controls. For instance, some intentions to  
11      change the price. It was basically a mistake.  
12      Somebody got the wrong information. A correction is  
13      made to adjust to the price that's being -- that is on  
14      the Web because that's the price that has been made  
15      public and the price that third parties would be charge  
16      to the extent that they were interested in pricing the  
17      service.

18                   MS. BEWICK: Once that error is  
19      discovered, how quickly is it corrected?

20                   MS. SCHWARTZ: In the month following  
21      discovery.

22                   MS. BEWICK: Is the other party that  
23      the contract is about, are they back-billed the  
24      discrepancy amount?

25                   MS. SCHWARTZ: If that were the

1 scenario, that's correct.

2 MS. BRUNSTING: If I could add a little  
3 clarifying information to this.

4 A couple of the examples we've run  
5 across would be a particular grade of a technician  
6 or particular level of service being provided by an  
7 individual that's \$29 versus \$35 an hour. We might not  
8 have covered the \$29 employee and it could have been  
9 billed then, the 29. What we did identify is that  
10 our agreement that was in place didn't cover all the  
11 services that we needed, therefore we would then within  
12 that period of time update that and then get the  
13 corrected bill back. There's a dispute process that  
14 would come from the long-distance affiliate where we  
15 also compare and look at those rates that are on the  
16 Internet with the bill that's been presented to us.

17 MS. WAYSDORF: The examples that you  
18 were discussing with Penny involved employee time.  
19 Would there also be -- would there also be transactions  
20 involving the provision of products and services  
21 between the two affiliates?

22 MS. SCHWARTZ: To rephrase your  
23 question, could there possibly be a discrepancy?  
24 Was that the question?

25 MS. WAYSDORF: I was trying to

1 establish that there would be a provision of a tariff  
2 service between the two. That would also be listed on  
3 the summary sheet as an affiliate transaction?

4 MS. SCHWARTZ: No, it would not.  
5 Although it would be an affiliate transaction, that's  
6 correct. Tariff services are referenced separately on  
7 the Web site to actually the tariff site. So those are  
8 not -- since those are already in place, we are  
9 tracking the specific nontariffed or contracted  
10 services.

11 MS. WAYSDORF: My understanding of your  
12 testimony is that tariffed services are on the Web site  
13 somewhere separately?

14 MS. SCHWARTZ: That's correct. There's  
15 a jump to the actual tariff services Web site.

16 MS. WAYSDORF: On this same portion of  
17 the Web site, for example would there be a product or  
18 service that's provided on a nontariffed basis but it  
19 is still a communications service of some type or  
20 product that might be provided on a contractual basis  
21 between the two?

22 MS. SCHWARTZ: If I understood your  
23 question correctly, most of the information we're  
24 discussing today is related to nontariffed services.

25 MS. WAYSDORF: I understand. What

1 is the nature of all of the contracts? Is there a  
2 limitation on the nature of the transactions that  
3 are listed on 7-Qwest-7 or 8? Is it only internal  
4 furniture, an accountant or lawyer that went from one  
5 to the other, or does it include the provision of a  
6 transport service, for example, that may not be on a  
7 tariffed basis but would be on a contractual basis for  
8 some reason?

9 MS. BRUNSTING: I think from the  
10 tariffed point of view or the contractual point of  
11 view, either way --

12 MS. WAYS DORF: For example, dark fiber  
13 is provided on a contractual basis but there's a rate,  
14 term and conditions concern, there's the provision of  
15 a particular piece of dark fiber and where would the  
16 information on that contract be provided?

17 MS. BRUNSTING: There is an exact  
18 example as you're mentioned. It's the lease of fiber  
19 optic cable. It's a task order that the 272 affiliate  
20 does provide to the BOC. It is listed as the fourth  
21 item from the bottom on 7-Qwest-8. I know that's the  
22 one that's difficult to read. If you then would go to  
23 the Internet site, that full agreement with its terms  
24 and conditions in its entirety and the dates applicable  
25 and the rates are posted there.

58

1 MS. WAYS DORF: Would the rates that are

2 billed under that contract between the affiliate and  
3 the BOC and any discrepancies between the actual rates  
4 that were billed, assuming there were, hypothetically,  
5 and the rates that are listed in the contract or  
6 contained in the contract, would that then be included  
7 in the calculation that's done monthly as described on  
8 your slide 20 so that if, at this point in time, the  
9 contract said that piece of dark fiber was \$10 a month  
10 but it actually got billed at \$5 a month, would that  
11 come out in this sort of form and would that  
12 information be available to others?

13 MS. SCHWARTZ: Yes. Any service that  
14 you see on that exhibit, we're reconciling all services  
15 on a monthly basis. That reconciliation is not public  
16 information. It's not required to be public but it has  
17 been -- will continue to be made available in this  
18 proceeding as long as it's open.

19 MS. WAYS DORF: Will that information  
20 be made available in this proceeding on a summary  
21 basis so that the 12 percent listed for March could,  
22 hypothetically, could be the technicians being billed  
23 out at the inaccurate rate and could be the dark fiber  
24 rate was billed out incorrect?

25 MS. SCHWARTZ: I believe, I'm not

1 certain, it could be available in the biannual audit



2 report to the extent that was public. We're just now  
3 beginning to monitor Verizon's procedures or proceeding  
4 around biannual audit. It could potentially be there.  
5 I'm not certain of where else it might be publicly  
6 available.

7 MS. JENNINGS-FADER: Now I'm really  
8 confused. In month one Qwest says -- posts it has  
9 an agreement and it's leasing dark fiber from Qwest  
10 Communications Corporation and the lease rate is \$10.  
11 That's posted, yes?

12 MS. SCHWARTZ: Yes.

13 MS. JENNINGS-FADER: In month three  
14 through some -- for some reason, someone notices that  
15 in your internal process -- making sure everything is  
16 correctly posted, one notices that the rate is actually  
17 \$5 and has been from the beginning \$5. In month three,  
18 how is that information posted?

19 MS. SCHWARTZ: The information that  
20 would be posted would be the first was \$10?

21 MS. JENNINGS-FADER: \$10 in month one  
22 but the rate was always \$5.

23 MS. SCHWARTZ: It depends on how you  
24 define real rate.

25 Correct me if I'm wrong, Ms. Brunsting,

60

1 but in order for us to comply with 272 we're required  
2 to bill the \$10. I know I would be really upset with

3 my team, but if we didn't find something until month  
4 three -- today we're finding it in month two.

5 MS. JENNINGS-FADER: I understand that.  
6 My question is, what happens when you find out about  
7 the \$5 in month three? I don't care about months one  
8 and two. In month three is the correct information  
9 posted in that month?

10 MS. SCHWARTZ: Yes, it would be.

11 MS. JENNINGS-FADER: For months one and  
12 two the posted public rate was \$10 and that would be  
13 the rate which would be available for any other company  
14 that wished to avail itself of that dark fiber,  
15 correct?

16 MS. SCHWARTZ: I believe if I  
17 understood your question correctly, that's correct.

18 MS. JENNINGS-FADER: Let's say we have  
19 a CLEC who is very interested in the available dark  
20 fiber and said I'll take it at \$10. For months one  
21 and two the posted rate is \$10, the CLEC is paying \$10;  
22 what happens in month three when the posted rate goes  
23 to \$5?

24 MS. SCHWARTZ: The posted rate, if I  
25 understand the question correctly -- are you asking if

61

1 the actual rate drops and it's \$5 now?

2 MS. JENNINGS-FADER: What happens to

3 the CLEC who took it at \$10 and signed a contract at  
4 \$10?

5 MS. SCHWARTZ: They'll be provided  
6 the service at \$5. If it's the same service and same  
7 rates, terms, and conditions, they will be -- we'll  
8 treat the 272 just like any other carrier and everybody  
9 will pay the \$5.

10 MS. JENNINGS-FADER: Starting in month  
11 three?

12 MS. SCHWARTZ: I believe if I  
13 understood your scenario correctly.

14 MS. BRUNSTING: I would say starting  
15 month three as long as, in my case, as the  
16 long-distance affiliate, as long as we hadn't disputed  
17 it previously and we're not in agreement with that rate  
18 and the services being fully complied even though the  
19 agreement was out there. We'd still have the option of  
20 the dispute process as posted in the master services  
21 agreement.

22 MS. JENNINGS-FADER: Okay. Thank you.  
23 Now I more clearly understand what's going on. Thank  
24 you.

25 MR. BELLINGER: Why don't we take a

62

1 15-minute break.

2 (Recess taken.)

3 MR. BELLINGER: If we can get back on

4 the record.

5 We seem to have a continuing list of  
6 questions, so why don't we go back to those.

7 MS. WAYS DORF: On 7-Qwest-7 and  
8 7-Qwest-8 -- let's take 7-Qwest-7 first. Is this the  
9 entire list of all affiliate contracts between whatever  
10 Qwest Long-distance? Is this an entire list?

11 MS. SCHWARTZ: Yes.

12 MS. WAYS DORF: The same with 7-Qwest-8?

13 MS. SCHWARTZ: Yes. As of the day it  
14 was generated.

15 MS. BRUNSTING: I do want to comment  
16 that the top line would indicate master services  
17 agreement amendment number 4 is up there. I also do  
18 not see 3, 2 and 1.

19 MR. WOLTERS: We discussed that  
20 earlier.

21 MS. BRUNSTING: I don't know where  
22 they're at on the list. There might be some that if a  
23 new amendment replaces there was a different convention  
24 we'll need to follow.

25 MS. SCHWARTZ: It's intended to be?

63

1 MS. BRUNSTING: Intended to reflect all  
2 agreements that are currently in place.

3 MR. WOLTERS: The reason I wanted

4 to reflect the replacements was because they are  
5 significant regarding the sign date and posting date  
6 and end date. That's why I think you have used a  
7 different convention with replacements versus expired  
8 and I think I'd like to see the replacements on the  
9 list, if possible.

10 MR. MUNN: We do have a new copy of the  
11 7-Qwest-8 exhibit that is easier to read and it's being  
12 copied now and we'll hand those out to everybody.

13 MS. WAYS DORF: 7-Qwest-7 is labeled  
14 "Qwest Long-distance Internet Posting Record."  
15 Does 7-Qwest-7 also include -- I understood Qwest  
16 Long-distance was the old US West Long-distance.

17 MR. MUNN: That's correct.

18 MS. WAYS DORF: Thank you. It does  
19 include that. Does it also include QCC, the new  
20 affiliate?

21 MR. MUNN: That's 7-Qwest-8. 7-Qwest-8  
22 is the QCC Internet posting record.

23 MS. WAYS DORF: 7 and 8 together would  
24 be all of the affiliate contracts between the -- either  
25 of the two 272 affiliates and the BOC?

64

1 MS. SCHWARTZ: That's correct.

2 MS. WAYS DORF: As of the date these  
3 were generated?

4 MS. SCHWARTZ: That's correct.

5 MS. WAYSDORF: Going to 7-Qwest-7,  
6 make sure I understood your previous testimony, then  
7 hopefully I will stop. Under master services agreement  
8 there's a number of work orders listed and then you  
9 switch to service agreement and then there's a number  
10 of task orders listed. Do you see that?

11 MS. SCHWARTZ: Yes.

12 MS. WAYSDORF: Counting from the  
13 bottom under the work orders, let's take the second  
14 from the bottom, voiceover IP. If I was interested in  
15 determining what is covered under that work order as I  
16 understand your previous testimony I would be able to  
17 find that work order in its entirety as posted on 3-19  
18 -- 3-25-01 on your Web site?

19 MS. SCHWARTZ: That's correct.

20 MR. MUNN: You're looking at 7-Qwest-8?

21 MS. WAYSDORF: Correct.

22 Continuing up the next one, tariff  
23 support services, do you know what that covers?

24 MS. SCHWARTZ: I'm speculating.

25 I would have to verify this by re-reviewing the actual

65

1 work order. It would be support -- basically support  
2 that QC is providing to QCC with regard to tariffed  
3 services.

4 MS. WAYSDORF: That would be assistance

5 in the preparation of tariffs?

6 MS. BRUNSTING: Correct.

7 MS. WAYS DORF: It doesn't involve the  
8 provision of tariffed services which I understood would  
9 be listed somewhere else? Okay.

10 MS. BRUNSTING: QC provides certain  
11 tariffed services or has over time if we needed the  
12 tariffs changed for the long-distance subsidiary.

13 MS. WAYS DORF: Tariff preparation  
14 services?

15 MS. BRUNSTING: And filing of them,  
16 yes.

17 MS. WAYS DORF: Continuing up, it says  
18 sales of QCC products and services. I counted the  
19 amendment separately. I think it's the fifth line up  
20 from the last line under master services agreement.  
21 The sales of QCC products and services.

22 MS. BRUNSTING: If you went out to the  
23 Internet site, there would be a description of all the  
24 terms and conditions and the services and how they're  
25 provided in a particular geographic area under what

66

1 conditions. That would be available for you to look  
2 at, see, and avail yourself if you required those.

3 MS. WAYS DORF: One follow-up question,  
4 because Ms. Schwartz previously testified that any  
5 products or services provided under tariff are listed

6 separately. How are they listed? How on the Web site  
7 -- is there a separate page for tariff products then  
8 there's a list of 10 or 15 or whatever?

9 MS. SCHWARTZ: Yes, there is.  
10 I believe we have had for some time disclosed tariffed  
11 services on the Web site, just like all the other  
12 RBOCs. So our convention to not duplicate what is  
13 already public information, and has been I believe for  
14 some time, on the Web, we just provided jump to the Web  
15 site on tariff services.

16 MS. BRUNSTING: In the example of  
17 Qwest long-distance, there were particular tariffed  
18 references that are pointed to on that site. If you  
19 click on that particular tariff reference site it  
20 brings you into the tariff itself so that you could  
21 see the rates, terms, and conditions.

22 MS. WAYSDORF: There's a page before  
23 you do the jump that lists which tariffed services are  
24 being provided?

25 MS. BRUNSTING: Qwest Long-distance

67

1 there's a page like that, yes.

2 MS. WAYSDORF: Going back to your slide  
3 20, is that same reconciliation done for the tariffed  
4 services where the amounts billed are checked against  
5 the amounts in the tariff and action taken



6 appropriately if necessary?

7 MS. SCHWARTZ: No, there is not.

8 Basically due to the fact that traditionally in the  
9 affiliate transactions area and also in Section 272 the  
10 scrutiny and the review that takes place is mostly for  
11 the contracted services since tariffed services have  
12 always been made a matter of public record. We charge  
13 the 272 tariffed services just like we charge any other  
14 interexchange carrier. The real point of interest has  
15 been in the area of contracted services.

16 MS. WAYS DORF: Is the reconciliation of  
17 the tariffed services the amounts billed compared to  
18 the amounts listed in the tariff, is that part of the  
19 biannual audit?

20 MS. SCHWARTZ: I would have to check.  
21 I do not believe so.

22 MS. DOBERNECK: My question is about  
23 staffing. In the three months between January and  
24 March when things were under way to get QCC turned up  
25 as the 272 affiliate, were there additional staffing

68

1 requirements or did you ramp up staffing to make sure  
2 that the appropriate controls were put into place?

3 MS. SCHWARTZ: I think Ms. Brunsting  
4 goes into the transaction activities in some detail in  
5 her remarks. Would your question be specific to the  
6 272 controls, for instance, or accounting controls?

7 MS. DOBERNECK: I'm interested in the  
8 accounting controls to determine discrepancies and  
9 things of that nature.

10 MS. SCHWARTZ: Absolutely. We did move  
11 a lot of folks into the 272 area to focus directly on  
12 identifying services, on pricing services, and then  
13 also reconciling services. In addition, we hired a  
14 team of accounting professionals from Arthur Anderson  
15 to come in and they conducted I believe over 150  
16 interviews of personnel in each of our business units  
17 to ensure that we had identified any services that were  
18 being purchased from or provided to the 272. So those  
19 would be some examples of where we ramped up resources  
20 in order to implement 272 accounting controls.

21 MR. BELLINGER: I believe you said you  
22 were going to cover this later anyway? Could we wait  
23 until we finish the presentations and go back to  
24 questions?

25 MS. DOBERNECK: I'm happy to wait.

69

1 MR. BELLINGER: Why don't we find this  
2 in your other presentation.

3 MS. SCHWARTZ: I had a few more pages  
4 to go there.

5 Prior to doing that. Mr. Wolters had  
6 asked earlier about the cite in SBC Texas for the FCC,

7 starts to get into the discussion of volume and  
8 confidential agreements and so forth. That starts at  
9 paragraph 405 and continues to 407.

10 Back to slide 22 where we talk about  
11 the 272(c), nondiscrimination safeguards. We talked  
12 about that in our discussion earlier, that QC,  
13 the BOC, must and does make available goods, services,  
14 facilities and information that it provides to the 272  
15 to other long-distance carriers at the same rates,  
16 terms, and conditions. We demand straight compliance  
17 with 272(c) by insuring that QCC, the 272, obtains  
18 information and services from the BOC through the same  
19 processes as other interexchange carriers. That would  
20 be through the sales executive team contacts. QC, BOC,  
21 must post transaction between the two companies to the  
22 Internet site, and we talked at length about that, and  
23 that all agreements between the BOC and the 272 are  
24 reviewed by that 272 oversight -- compliance oversight  
25 team that I discussed earlier that I'm a member of.

70

1 All BOC employees are required to treat  
2 QCC, the 272, like any other exchange carrier and we've  
3 demonstrated we have sufficient controls in place to  
4 satisfy 272(c).

5 On slide 23 I'll touch on the biannual  
6 audit in the interest of time. We talked about that  
7 earlier as well. Once we have 271 authority we'll have

8 a 272 joint and federal state audit. Every two years  
9 that will begin in the first 12 months of operation.  
10 It's very important to know that this is not the only  
11 place where Section 272 compliance will be assessed.  
12 It will be continually assessed through 272 biannual  
13 audit process and the FCC has placed heavy reliance on  
14 the existence of the biannual audit in each of its 271  
15 approval orders.

16 Wrapping up, we've provided sufficient  
17 evidence on the record to prove we are 272-compliant  
18 ready. We've had compliant Section 272 subsidiary  
19 since 1996; that was Qwest Long-distance. We  
20 successfully transitioned to a new 272 this year, QCC.  
21 We've demonstrated that we have sufficient controls in  
22 place to comply with Section 272, an FCC requirement.  
23 We'll continue to supplement the record in this  
24 proceeding regarding the 272(b)(5) Web discrepancies  
25 we talked about in detail.

71

1 Finally, we'll reaffirm our 272  
2 compliance through the first biannual audit and  
3 thereafter as long as 272 is in place.

4 We've demonstrated that our 271  
5 authority will be carried out in compliance with  
6 Section 272 and that's the FCC's test. We ask that you  
7 find we have met the burden of proof in showing Section

8 272 readiness.

9 Thank you.

10 MS. QUINTANA: How do you plan to  
11 supplement the record regarding the discrepancies?

12 MR. MUNN: I think on this point,  
13 as the -- until we've finished the briefing on these  
14 issues, each month as we have the more current data  
15 for the previous month, we would then supplement that  
16 information through an exhibit we could send out to the  
17 super list and just supplement the record with that  
18 ongoing analysis as it occurs each month.

19 MS. QUINTANA: You said before the  
20 briefing, so maybe just one more supplement?

21 MR. MUNN: After the briefing is done,  
22 I'm not aware of any -- the record at that point would  
23 be closed. That's what I was contemplating with this.  
24 I think we want to provide the most up-to-date  
25 information we have while the parties are evaluating

72

1 the briefing process and submitting the brief to the  
2 commission. I think that would be helpful for  
3 everybody.

4 MS. QUINTANA: You would envision, say,  
5 10 days before the brief is due supplementing the  
6 record with the most current information you have?

7 MS. SCHWARTZ: I believe the June  
8 posting data is scheduled to be completed on or around

9 the 25th.

10 MR. MUNN: Tie it to a day before a  
11 brief. They get it out as quickly as they can get that  
12 information together, then we'd provide it as soon as  
13 we have it.

14 Ms. Brunsting's opening is 10 minutes;  
15 much less. Since the topics are so related, have her  
16 do her opening and any questions of any of the  
17 witnesses can be asked.

18 MR. BELLINGER: Okay.

19 MS. BRUNSTING: My name is Judith  
20 Brunsting. I'm employed by Qwest Communications  
21 Corporation as a Senior Director 272 Business  
22 Development. I represent the 272 affiliate or the  
23 long-distance company. Previously I held the position  
24 of Director of Regulatory and Network for Qwest  
25 Long-distance, the previous 272 affiliate.

73

1 From the creation of Qwest's  
2 Long-distance, premerger US West Long-distance,  
3 we structured that company as a separate entity that  
4 would provide interLATA long-distance service upon BOC  
5 approval of 271. The company would then have processes  
6 in place and experience in following the separateness  
7 requirements of maintaining separate company books,  
8 having separate employees, and documenting transactions

9 with the BOC. We identified processes, put controls in  
10 place to operationalize that long-distance business,  
11 all within and while meeting those separateness  
12 requirements of 272. We had the opportunity to test  
13 those processes prior to the merger. I was a part of  
14 all of those activities for four years. Key learning.

15 Section contingency plan 2 operating  
16 guidelines require timely monitoring of processes and  
17 flexible controls so that one is able to react to the  
18 process changes that you'll need to incorporate which  
19 are caused by market and product introductions.

20 In the summer of 2000, upon completion  
21 of the merger between US West and Qwest, the previous  
22 272 affiliate, US West Long-distance, name changed to  
23 Qwest Long-distance. In the fall, Qwest revisited its  
24 business plans and began initiation of internal  
25 discussions as to which legal entity would offer

74

1 interLATA services in-region. In mid-January  
2 Qwest Communications Corp. was identified as the 272  
3 affiliate. There were plans to take processes and  
4 controls from the premerger 272 affiliate and quickly  
5 implement them in the newly identified 272 affiliate.  
6 Some employees were moved from one entity to another.  
7 Documentation of all transactions between the 272 and  
8 the BOC were completed and those transactions were  
9 posted. Operational plans were put in place for the

10 processes to continue to comply with 272.

11 I'd like to take a minute to give you  
12 a sense of the detailed work activities that did occur  
13 during the January to March 2001 time frame which is  
14 part of the transitional period as described by  
15 Ms. Schwartz.

16 Operating authorities and certificates  
17 were validated, the asset records were reviewed to  
18 ensure that no joint ownership of facilities, land, or  
19 buildings existed. The senior leadership team of the  
20 network organization and key employees received reviews  
21 of the specific requirements of the prohibition of  
22 operation, installation, and maintenance referred to  
23 as OI&M, by the BOC or the 272 on each others' network.  
24 Processes and controls were put in place for bill  
25 payment and expenditure controls, separate financial

75

1 reporting was created, system access was validated to  
2 ensure protection of the information, and in order to  
3 ensure separate officers, directors, and employees  
4 processes were created to identify if an individual  
5 is an officer or director of the 272 affiliate, the  
6 employee is not also an officer, director, or employee  
7 of the BOC. Some employees were aligned, other legal  
8 entities to assure compliance. Training was  
9 extensively completed and an inventory of floor space



10 completed to ensure physical separation guidelines were  
11 in place for the employees of the 272 affiliate and the  
12 BOC. All contracts were reviewed, validating that  
13 there were no recourse claims or clauses to BOC assets  
14 as a part of any of the agreements. We also put in  
15 place a guideline for new contract development so that  
16 the use of recourse language was limited.

17 Key contacts for the request of service  
18 between the 272 affiliate and the BOC were identified  
19 and processes for documenting those services were  
20 implemented. We continue to respond to employee  
21 questions on Section 272 daily.

22 The 272 affiliate is an organization  
23 of approximately 2,000 employees. It's over 2,000  
24 employees, I might add. The employees are primarily  
25 located in Ohio, Virginia, Colorado, Minnesota, and

76

1 numerous other out-of-region locations. The  
2 organizations have divisions which are responsible  
3 for network operations, including provisioning and  
4 engineering, sales, customer service, and marketing.  
5 The 272 affiliate currently has operating authority to  
6 conduct business in all 50 states. The 272 affiliate  
7 provides interLATA origination in the 36 states outside  
8 the 14-state region.

9 Ms. Schwartz reviewed with you-all of  
10 the requirements of Section 272. I would just like to

11 focus on three areas where we really placed additional  
12 effort by the long-distance subsidiary or the 272.

13 272(b)2 requires that the 272 affiliate  
14 have separate books, records and accounts. The 272  
15 affiliate established and maintains a separate chart  
16 of accounts and we follow GAAP. We maintain books,  
17 records, and accounts separate from the BOC. We have  
18 separate internal financial controls and separate  
19 assets documented and tracked in our records. The 272  
20 affiliate and the BOC do not share accounting systems.  
21 We both use separate PeopleSoft systems that actually  
22 operate in different locations.

23 Section 272(b)(3). The 272 affiliate  
24 has no officers, directors, or employees that are also  
25 officers, directors, or employees of the BOC. The 272

77

1 affiliates employees report to division leaders which  
2 report to the officer team of the 272 affiliate.  
3 Further examples of how the 272 affiliate is separate  
4 from the BOC are the 272 affiliate pays applicable  
5 taxes and fees separate from the BOC, the 272 complies  
6 with all state and FCC reporting requirements  
7 separately from the BOC, and the 272 affiliate has  
8 its own payroll.

9 Following the announcement of the  
10 272 affiliate, Qwest implemented a program whereby

11 employees of the 272 affiliate, the BOC and the  
12 services company, would receive a color identifier,  
13 a dot, to distinguish which company they represent.  
14 These dots were furnished to the employees of those  
15 three subsidiaries and you were to place this colored  
16 dot on your ID badge and on your office name plate.  
17 The red would indicate I'm a Section 272 affiliate or  
18 the long-distance company, blue is the local company or  
19 the BOC, and yellow is the services company.

20 Employees at that time also received  
21 guidance on the protection of information and how to  
22 do business between the BOC and the 272 affiliate  
23 in compliance with the rules. This program was to  
24 raise awareness by employees of complying with  
25 requirements in order to reenter the long-distance

78

1 market were hugely successful. I continue to receive  
2 calls from employees that are concerned they don't have  
3 a dot or that they have now changed to another entity  
4 and are there different requirements for them.

5 With all the changes that occur with  
6 the merger, that activity assisted in identifying for  
7 employees the legal entity and the organization they  
8 are a part of and the protection of necessary  
9 information that does go with that knowledge.

10 Finally, to ensure we remain compliant  
11 with Section 272 requirements, the 272 affiliate

12 indicates all new employees on the requirements of 272  
13 within 10 days of employment. All current employees  
14 have received training and completed annual compliance  
15 company review. Employees that have compliance issues  
16 receive information on who they can contact to get  
17 answers or report potential violations. Understanding  
18 272(c), the nondiscrimination of the BOC, the 272  
19 affiliate requests products and services through a  
20 BOC sales executive.

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22  
23  
24  
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79

1 MS. BRUNSTING: This sales executive, as  
2 with any other carrier, contacts the necessary business  
3 units and a manager of the BOC regulatory accounting  
4 group. The 272 affiliate has assigned an employee  
5 responsible for the negotiation and administration of  
6 the agreements with the BOC, as well as with other  
7 suppliers.

8 To conclude my testimony, or my summary,  
9 the 272 affiliates and the previous 272 affiliates are  
10 separate affiliates, created according to Section 272  
11 requirements. We have shown that there are processes

12 in place, a structure created, and knowledge of those  
13 requirements to remain compliant with 272. We would  
14 like to recommend that you find we meet Section 272,  
15 and I thank you for the opportunity to share this  
16 information.

17 MR. BELLINGER: Mana.

18 MS. JENNINGS-FADER: Within the 272  
19 affiliate, Qwest Communications Corporation, is there  
20 any -- I don't know what to call it -- in the  
21 description of responsibilities of the employees, and  
22 is there a specific recognition of the need to know, to  
23 understand, to apply the 272 requirements?

24 MS. BRUNSTING: Yes. Within 10 days,  
25 every new hire is covered on the training package and

80

1 the 272 requirements.

2 MS. JENNINGS-FADER: I am sorry. I am  
3 not being clear. Is money associated with or penalties  
4 associated with failure to know, to abide by, to follow  
5 the 272 guidelines?

6 MS. BRUNSTING: Yes. That is covered in  
7 the annual compliance training, the 272 requirements,  
8 along with affiliate transaction requirements, and the  
9 necessary conduct that goes forward with that, to  
10 ensure that those obligations are met, which could be  
11 and have been recommended for termination and conduct  
12 treatment.

13 MS. JENNINGS-FADER: Okay. Thank you.  
14 And then, in your original affidavit, which is Exhibit  
15 7-Qwest-1, on page 12, you talk about a very brief  
16 description, and, evidently, there's a substantial  
17 exhibit that is more specific, but there's a little  
18 brief description about the 272 affiliate training  
19 efforts.

20 MS. BRUNSTING: Okay.

21 MS. JENNINGS-FADER: And I was interested  
22 in the advice line number there that's an 800 number.  
23 Could you explain a little bit more about how that  
24 operates and give the commission some idea of how many  
25 calls, say, per week or per month that line may be

81

1 receiving, and who is on the end of the line that picks  
2 up and answers questions, and just a little bit more  
3 explanation about what that is and how it operates.

4 MS. BRUNSTING: Okay. I would be happy  
5 to do that. As we introduced a full section of 272  
6 training, on March 10, that every employee would be  
7 covered on 272, in the final page of that training, a  
8 reference point is made to the corporate advice line.  
9 And in visiting with -- the corporate advice folks are  
10 located in the legal department, and it's held at arm's  
11 length. They really don't provide us specific  
12 information back, but at the time we put that training

13 out, they received 20 to 30 calls a day, on questions  
14 that, who do they go to find their dot, on what are the  
15 separateness requirements for nondiscrimination that  
16 they need to maintain. I am an employee of this  
17 subsidiary. Can I talk to this subsidiary, along with  
18 just the separateness requirements for the 272  
19 requirement itself.

20 They received questions from employees  
21 on, is it permissible for me to perform this function.  
22 Now, the calls, since the training, they're probably  
23 getting 20 a week now. They are not getting 20 to 30 a  
24 day, but that compliance activity is available, and  
25 it's used to not only seek information but to report

82

1 potential violations.

2 MS. JENNINGS-FADER: Thank you. Okay.  
3 Thank you very much.

4 MR. WOLTERS: Do they get a live person  
5 when calling that 800 number?

6 MS. BRUNSTING: Yes, they do get a live  
7 person when they call.

8 MS. JENNINGS-FADER: One more question  
9 with respect to the advice line number. Is that a  
10 number which Qwest Communications Corporation -- is  
11 that your own telephone number, or is that a number,  
12 which is to say, for the Qwest Services, the company?  
13 I am trying to --

14 MS. BRUNSTING: It would be.

15 MS. JENNINGS-FADER: Which of the  
16 companies is that line for?

17 MS. BRUNSTING: That advice line would be  
18 available to any subsidiary or legal entity of the  
19 Qwest family of companies. It's internal, but it is  
20 used for all entities within that family of companies.

21 MS. JENNINGS-FADER: So that would be --

22 MS. BRUNSTING: The Dex.

23 MS. JENNINGS-FADER: All of the  
24 affiliated service companies, for example.

25 MS. BRUNSTING: Yes.

83

1 MS. JENNINGS-FADER: I should say, all  
2 subsidiaries.

3 MS. BRUNSTING: Subsidiaries, separate  
4 legal entities, yes.

5 MS. JENNINGS-FADER: Finally, is this  
6 line, to your knowledge, is it anticipated that this  
7 line will continue in existence forever? Is there some  
8 endpoint known? What's the -- do you have any idea  
9 about plans for this advice line?

10 MS. BRUNSTING: Yes. The line is 272,  
11 and any of the other compliance -- annual compliance  
12 issues that the corporation needs to follow, it's my  
13 understanding is -- and I actually have been involved



14 in additional updated training and coverage that will  
15 continue and go on, along with providing additional  
16 advice for those folks, as they answer questions. That  
17 that is an activity that is totally supported and will  
18 continue by the corporation.

19 MS. JENNINGS-FADER: Okay. Thank you  
20 very much.

21 MR. BELLINGER: Okay. Michelle.

22 MS. NORCROSS: I would like to ask  
23 somebody to explain, in a little bit more detail, what  
24 Qwest Service Corporation provides, the service it  
25 provides, and if it does provide joint service to QC

84

1 and QCC, to what extent and how those are tracked.

2 MS. BRUNSTING: Okay. I can just give  
3 you a review of the general services that Qwest  
4 Services Company provides: Legal, all of the corporate  
5 financial type of service, public policy. There are  
6 some procurement services, some risk management  
7 services provided there. There's some -- all of the  
8 product development and product management is provided  
9 in the services company, along with some corporate  
10 marketing type of planning positions and sales  
11 governance type of functions for compensation.

12 MS. NORCROSS: Okay. So, are any of  
13 those services then both provided to QC and QCC, and,  
14 if so, are they directly assigned -- I am trying to

15 figure out how to track those.

16 MS. SCHWARTZ: Certainly. The complete  
17 list of the services was filed in my supplemental  
18 affidavit on June 4th. That was 7-Qwest-3. And that  
19 does include the service that Ms. Brunsting just  
20 mentioned. Treasury, for example, is another one that  
21 comes to mind. It depends on the service. For  
22 instance, in the case of legal service, there are time  
23 reporting requirements and there are more directly  
24 assignable costs associated with legal service.  
25 Whereas, to the extent, you know, we're talking about

85

1 potentially executive management, there may be some  
2 general allocations involved. So, it depends on the  
3 service and whether or not it lends itself to a  
4 directly assignable methodology.

5 MS. NORCROSS: Okay. Thank you.

6 MR. BELLINGER: Okay. Before we get to  
7 any more questions, AT&T, do you want to ask questions  
8 or --

9 MR. WOLTERS: I just have a couple of  
10 questions.

11 MR. BELLINGER: I was going to ask  
12 what -- do you plan to make a presentation at all?

13 MR. SKLUZAK: I do.

14 MR. BELLINGER: What kind of -- do you

15 want to ask questions first, then go to the --

16 MR. SKLUZAK: I was just going to clear  
17 up something that Ms. Brunsting said, then I was going  
18 to launch into an overview.

19 MR. BELLINGER: Okay. Well, I think we  
20 got a couple down here.

21 MS. WAYS DORF: I have one very quick  
22 question. It's just a follow-up on Mana's questions.  
23 And Ms. Brunsting, when you testified that every  
24 employee receives this training within 10 days of  
25 employment, and then it's part of their annual

86

1 compensation, I would assume that's what you meant.  
2 When you say, "every employee," do you mean every  
3 employee of the company or every employee of the 272  
4 affiliate, of QCC?

5 MS. BRUNSTING: Currently today, every  
6 new employee has an orientation training package that  
7 they take. It not only covers 272, it covers other  
8 anti-trust issues, other protections, so that the  
9 telecommunication question included 272 on that,  
10 because we do feel it's important that every employee  
11 have an overview of 272.

12 Now, if I move into the 272 affiliate, I  
13 will then be given access to a more in-depth, detailed  
14 training or overview package. Similarly, if I were a  
15 network employee in the local company or the BOC, I

16 have another, more specific, defined set of training  
17 that's available to me on the Web.

18 MS. WAYS DORF: Do the employees of the  
19 BOC, Qwest Corporation, also receive this more in-depth  
20 training on 272 issues?

21 MS. SCHWARTZ: To the extent that they  
22 have direct dealings with the 272 subsidiaries. So,  
23 for instance, in the wholesale organization, where the  
24 account team contacts reside, they do undergo more  
25 specific targeted 272 training. So, just to recap, all

87

1 Qwest employees are trained on Section 272 in the  
2 annual compliance training. Within 10 days, if they  
3 were new hires, and depending on what their specific  
4 job functions are, they may have more targeted 272  
5 training.

6 MS. WAYS DORF: The more in-depth training  
7 you said is available on the Web, is that voluntary?  
8 Is that a requirement then, that if I were, for  
9 example, if an employee moves into Qwest's QCC, you  
10 said that more in-depth training is available. By  
11 available, it means, you know, you can take advantage  
12 of it, if you choose to, or is it a requirement when  
13 you are moving into that subsidiary?

14 MS. BRUNSTING: It is a requirement for  
15 those managers to ensure that their employees partake

16 of that additional coverage. It's a requirement that  
17 they have that. Likewise, the annual compliance  
18 training. That's a requirement that they are covered  
19 on that.

20 MS. WAYSDORF: Thank you.

21 MR. WOLTERS: Mr. Brunsting, is that dot  
22 under laminate or on top of the laminate?

23 MS. BRUNSTING: It's on top, so your dot  
24 can fall off.

25 MR. WOLTERS: Ms. Schwartz, you had

88

1 testified that all publicly traded companies are  
2 required to follow GAAP; is that correct?

3 MS. SCHWARTZ: Correct, yes.

4 MR. WOLTERS: What's the publicly traded  
5 company in the Qwest family of companies?

6 MS. SCHWARTZ: The publicly traded  
7 company is Qwest Communications International. Qwest  
8 Corporation is also required to file with the Security  
9 and Exchange Commission due to publicly held debt.

10 MR. WOLTERS: And I take it then that  
11 Qwest Corporation has to follow GAAP also, because of  
12 that.

13 MS. SCHWARTZ: All of Qwest companies  
14 follow GAAP. And Qwest Corporation has an audit  
15 opinion or a specific audit associated with compliance  
16 with GAAP.

17 MR. WOLTERS: Are subsidiaries that are  
18 consolidated, or a subsidiary whose financial statement  
19 is consolidated with the publicly traded company,  
20 required to follow GAAP?

21 MS. SCHWARTZ: Yes, they are.

22 MR. WOLTERS: Okay. That's all I have.

23 MR. BELLINGER: Okay. You want to go on  
24 with your questions?

25 MR. SKLUZAK: I have just one.

89

1 MR. BELLINGER: Then your presentation.

2 MR. SKLUZAK: I will do that.

3 Ms. Brunsting, I guess I was surprised, and I may have  
4 misheard you, but when the question was asked, what  
5 sort of services does Qwest Service Corporation  
6 provide, I thought I heard you say product design,  
7 planning and/or development service.

8 MS. BRUNSTING: Uh-hum.

9 MR. SKLUZAK: So, to QCC?

10 MS. BRUNSTING: Yes.

11 MR. SKLUZAK: The reason I am surprised  
12 is, I guess I was under the impression -- in my direct  
13 testimony, I talk about this, starting on page 67, that  
14 QC, the BOC, was providing those sort of services to  
15 QCC.

16 MS. BRUNSTING: Prior to the announcement

17 of the new 272 affiliate, and during that transition  
18 period from January through March, there were product  
19 development and implementation services being provided  
20 by QC to the BOC to the 272. After that date, the  
21 product development services have all been centralized  
22 at the service company level. There are some product  
23 managers that reside -- that solely work on local  
24 service, for instance. They're in QC, okay? But the  
25 product development functions and planning are held at

90

1 the services company.

2 MR. SKLUZAK: QSC.

3 MS. SCHWARTZ: If I could just add,  
4 Mr. Skluzak, that list of services was attached in my  
5 supplemental affidavit, filed on June 4, to -- there's  
6 an exhaustive list of those services.

7 MR. WOLTERS: My understanding is except  
8 for collective bargaining employees, which were  
9 retained by QC, all services are now, for QCC, provided  
10 by QSC, correct?

11 MS. BRUNSTING: (Shaking head in the  
12 negative.)

13 MS. SCHWARTZ: I am sorry. Could you  
14 rephrase the question?

15 MR. WOLTERS: It's my understanding that,  
16 except for collective bargaining employees, which have  
17 been retained by QC, all services provided by QC -- QCC

18 are now being provided to QCC by the service  
19 corporation?

20 MS. SCHWARTZ: That's incorrect.

21 MR. WOLTERS: Well, correct me.

22 MS. SCHWARTZ: Am I misunderstanding?

23 MS. BRUNSTING: It's incorrect.

24 MS. SCHWARTZ: There is a, again, a list  
25 of services that Qwest Corporation is providing to QCC,

91

1 for instance, payroll services, we have talked about  
2 that in previous workshops, that's listed on the Web.  
3 So there are still services that QC, the BOC, provides  
4 to QCC. They're posted on the Internet, and they are  
5 made, I believe, available to third parties.

6 MS. BRUNSTING: Billing and collection  
7 is, for instance, is one of those types of services  
8 that we will be performing from the BOC.

9 MR. WOLTERS: My understanding in an  
10 earlier workshop, we were told that the only reason  
11 those services weren't transferred to the service  
12 corporation was because those employees were subject to  
13 'collective bargaining agreements. That's why you  
14 retained those services in QC.

15 MS. SCHWARTZ: I believe that was a  
16 specific answer to payroll services.

17 MS. BRUNSTING: Payroll.



18 MR. WOLTERS: It's not -- doesn't cover  
19 all of the employees that remain at QC that are  
20 providing service to QCC?

21 MS. SCHWARTZ: No, it does not. It does  
22 not.

23 MR. SKLUZAK: Just to finish up my  
24 thought, Section 272(G) goes into joint marketing  
25 between QC, the BOC, and QCC. And activities or joint

92

1 marketing activities are not subject to the  
2 discrimination requirements of Section 272(C).

3 MS. BRUNSTING: Correct.

4 MR. SKLUZAK: Except for planning, design  
5 and development.

6 MS. BRUNSTING: That's right.

7 MR. SKLUZAK: Now you are telling me that  
8 it really doesn't matter because the BOC is not  
9 involved in that anyway. It's Qwest's service  
10 corporation.

11 MS. BRUNSTING: Qwest Services Company  
12 provides the necessary product design, planning or  
13 development for the BOC, and they also provide those  
14 same services for the 272 affiliates. Likewise, they  
15 provide service for other affiliates. And they are  
16 materially made available and informed on the  
17 information-sharing obligations and what information  
18 they should be sharing with each of those entities.

19 MR. SKLUZAK: And because QSC is not the  
20 BOC, it is not required to post these sort of services  
21 on the 272 Website?

22 MS. BRUNSTING: That's correct.

23 MR. SKLUZAK: So they are not subject to  
24 the 272(C) discrimination safeguards?

25 MS. SCHWARTZ: That's correct.

93

1 MR. SKLUZAK: Okay. I just wanted to  
2 clear that up.

3 MR. BELLINGER: Okay.

4 MR. SKLUZAK: Okay. I am ready for my  
5 presentation. It won't be nearly as lengthy. I am  
6 basically going to give you some overview of my  
7 testimony and then rebut some of the items that  
8 Ms. Schwartz brought up in her presentation.

9 My name is Cory Skluzak, S-k-l-u-z-a-k,  
10 and I represent AT&T specifically here on the Section  
11 272 matters. My affidavit or direct testimony was  
12 filed on June 25th.

13 I think it's first important to  
14 underscore the importance of Section 272. This section  
15 can act as a trip wire to the discriminatory behavior  
16 by Qwest or QC, as the convention is here, if  
17 compliance can be properly structured and vigorously  
18 enforced. It is important to protect Qwest or QC

19 consumers from paying higher prices for local services  
20 because of improper cross subsidies received by QCC.  
21 It is also important to protect the competitive long  
22 distance landscape once and if Qwest obtains Section  
23 271 approval.

24                   The FCC provides some guidance in this  
25 area. They state to look beyond the paper promises

94

1 offered up by the BOC and the Section 272 affiliate.  
2 The FCC has stated that the past and present behavior  
3 of the BOC applicants is highly relevant because such  
4 behavior provides the best indicator of whether the BOC  
5 will carry out the requested authorization and in  
6 compliance with the requirements of Section 272. I  
7 would also add that failure to comply with this section  
8 constitutes independent grounds for denying a Section  
9 271 application. Therefore, if the Colorado commission  
10 does not feel that Qwest has met its burden as to  
11 Section 272 compliance, it can so note to the FCC.

12                   My affidavit basically consists of  
13 findings that I found in a series of on-site reviews  
14 and tests. I had conducted three separate on-site  
15 reviews of accounting documentation provided by Qwest.  
16 The first was the initial, what I referred to as  
17 "initial." The second is the follow-up, and the third  
18 is the supplemental. The initial was done roughly in  
19 the middle to latter half of August 2000, the follow-up

20 in April of this year, and supplemental a few weeks  
21 later. The follow-up was needed because of the passage  
22 of time and change to a section -- a new Section 272  
23 affiliate. The supplemental was needed because not all  
24 of the material was initially provided. Once again,  
25 most of my testimony deals with findings from these

95

1 on-site reviews. My purpose in these on-site reviews,  
2 and also the purpose of my affidavit, was to put QC's  
3 and QCC's assertions of compliance to the test, to go  
4 beyond the paper promises, to the history of Qwest's  
5 Section 272 compliance.

6 Ms. Schwartz's presentation, in several  
7 of the slides, Slide 5, Slide 24, No. 6, No. 2, talks  
8 about that Qwest has always had these processes in  
9 place to be Section 272 compliant. Slide 6 states,  
10 "Qwest Long Distance establishes a five-year history of  
11 Section 272 compliance for Qwest Corporation." And  
12 also Slide 2, "Qwest Long Distance has always been a  
13 compliant Section 272 affiliate."

14 I guess I found it curious -- I am sure  
15 Ms. Schwartz will want to rebut what I am saying here,  
16 but, on Slide 8, it states that "Existing Section 272  
17 controls are strengthened." Also, on page 4 of her  
18 rebuttal, "QC has now strengthened its Section 272  
19 affiliate transactions policy." Page 9 of her

20 rebuttal, "QC has instituted a new policy as to loaned  
21 or shared employees." Page 19 of her affidavit, "QC  
22 has hired Arthur Andersen to supplement the Section 272  
23 affiliate's transaction processes." Page 16 of her  
24 rebuttal, "QC failed to calculate interest that should  
25 have been billed."

96

1                   You know, this is not an exhaustive list.  
2 These are just some that I picked out yesterday, but  
3 given all of these, the strengthening of controls,  
4 et cetera, how can Qwest still state that they have had  
5 an unbroken, unblemished five-year history of Section  
6 272 compliance. Finally, QC states, or the  
7 proposition, rather, that, quote, it will not provide  
8 in-region interLATA service originating within the BOC  
9 14-state region as long as Section 272 applies. That  
10 is a quote from page 9 of Ms. Schwartz's affidavit.  
11 However, as is discussed in the past violations section  
12 of my testimony, U S West and Qwest have been found to  
13 have been doing just that; and, therefore, had violated  
14 Section 271.

15                   As to Ms. Schwartz's presentation, which  
16 talked about this transition period, the timing of the  
17 switching of the Section 272 affiliate, Ms. Schwartz  
18 claims that the merger -- this is Slide 7 of her  
19 presentation -- triggered the decision in the third  
20 quarter of 2000 to recess the Section 272 affiliate.

21 Also, Slide 8, "QCC was identified as the new 272  
22 affiliate in January 2001." Also, on that slide, "QCC  
23 was, quote, turned up, unquote, as the new affiliate on  
24 March 26th, 2001." I guess that turned on means that  
25 that's the date that QCC actually became a 272

97

1 affiliate, rose into being. However, this sort of begs  
2 the question of why is Qwest allowing for its  
3 affiliate, QCC, to be identified in January and then  
4 come into being three months later. I don't see the  
5 guidance from the FCC on that.

6 In my testimony, pages 49 through 51, I  
7 list a number of items. These go to when this  
8 transition actually took place. When did QCC actually  
9 become a Section 272 affiliate. I include an E-mail  
10 from Qwest's attorney stating that Qwest is in the  
11 process of developing a transition plan for another 272  
12 affiliate. They are already in the process of  
13 developing this transition plan. This E-mail was dated  
14 September 10th, 2000. This statement runs counter to  
15 Qwest's current story that the transition began after  
16 QCC was identified, and it does not spring into being  
17 until March 26th of this year.

18 Qwest has changed the wording for the  
19 overviews in the Section 272 Website for Qwest LD and  
20 QCC. Exhibits 7-Qwest-9 and 7-Qwest-10 were handed out

21 today. 7-Q-9 -- and I won't go into great detail here,  
22 but please take sometime and compare that overview  
23 language of those two exhibits with what I have quoted  
24 on page 50, Item E of my testimony. That was the  
25 original overview language, and I think it will connote

98

1 to you that Qwest LD ceased becoming the major 272  
2 affiliate December 31st, 2000, and QCC became the  
3 affiliate at least as early as January 2000. Also,  
4 starting January 1, 2001, no transactions could be  
5 found for Qwest LD and in the active section, further  
6 supporting the view that QCC had succeeded Qwest LD on  
7 that date. QC explains this was an inadvertent error  
8 and the cite to that is page 13 of Ms. Schwartz's  
9 rebuttal.

10 Section 272(A), sort of hopping around  
11 here to various sections that Ms. Schwartz brought up  
12 in the presentation, goes to the separate affiliates.  
13 Slide 10 of Ms. Schwartz's presentation does not  
14 acknowledge that to comply with 272(A), Qwest or QC  
15 must meet all of the requirements of 272(B). It does  
16 not, and by definition, is not a separate affiliate. I  
17 refer you to page 11 of my testimony where I discuss  
18 this and in further detail. Section 272(B)(2), which  
19 is the separate books, records and accounts, QCC has,  
20 as has been stated by Ms. Schwartz, most follow  
21 Generally Accepted Accounting Principles as required by

22 FCC. Based on my testing, which is contained in the  
23 affidavit, they are not accruing from month to month  
24 and year to year. GAAP also embraces the concept of  
25 timeliness. Based on my testing, they are not billing

99

1 or accounting for in a timely fashion. In fact, the  
2 current policy is to accrue for 272 transactions only  
3 over \$25,000 not billed in the current month. That's  
4 from page 4 of Ms. Schwartz's rebuttal. This, by the  
5 way, is a strengthening of former 272 affiliate  
6 transaction accrual policy. So, I am not sure what  
7 that policy was before, but it has now been  
8 strengthened to capture items only over \$25,000.

9           Especially egregious to QCC in this  
10 section -- and in my testimony I discuss this on pages  
11 45 and 46 -- the complete failure to book billable  
12 transactions between Qwest and QCC for a nine-month  
13 period beginning in July 2000. In Slide 7, I believe,  
14 of Ms. Schwartz's presentation, I am -- let me make  
15 sure I get this right. Slide 7. This is explained  
16 away as a one-time disruption in accounting control.  
17 Just to underscore, this one-time disruption is a  
18 mistake encompassing nine months, a complete failure to  
19 account for affiliated transactions between QCC and  
20 Qwest. Alternatively, the concept of materiality is  
21 used to isolate this total accounting failure.



22 Slide 14 of Ms. Schwartz's presentation,  
23 as to materiality, the Financial Accounting Standards  
24 Board, which is the board that promulgates many of the  
25 standards used for GAAP, Generally Accepted Accounting

100

1 Principles, we refer to these as FASBs, F-A-S-B-s.  
2 FASBs statement of Concept No. 2 states, "Materiality  
3 is not a primary characteristic of the same kind as  
4 relevance and reliability. And magnitude, by itself,  
5 without regard to the nature of the item in the  
6 circumstances in which the judgment has to be made will  
7 not generally be sufficient basis for a materiality  
8 judgment." This underscores the need to evaluate the  
9 concept of materiality as it relates to other  
10 qualitative characteristics, especially relevance and  
11 reliability. In fact, an exhibit to Ms. Schwartz's own  
12 affidavit, MES-8, which is the copy of the biannual  
13 audit procedures for Section 272, in Section 3 of the  
14 introduction it states, "It should be noted that  
15 AUP" -- Agreed Upon Procedures -- "engagements are not  
16 based on the concept of materiality; therefore, the  
17 practitioner must report all errors or discrepancies  
18 discovered while performing the AUP engagement." The  
19 FCC looks to the regular audit program of the Section  
20 272 affiliate to ensure GAAP compliance. I am unsure  
21 if that is particularly happening to QCC.

22 There was a mention to the Arthur

23 Andersen exhibit, which is -- excuse me, the Arthur  
24 Andersen opinion, which is Exhibit 7-Qwest-6, but this  
25 was discussed extensively in the multi-state

101

1 proceedings, and moderator John Antonuk stated he  
2 basically did not put much stock into this as it  
3 applies to affiliated transactions. So, if you look in  
4 that script, you will see that language.

5                   Section 272(B)(5), this is public  
6 disclosure of transactions. Why is this important?  
7 For two reasons: One, it allows other competitors the  
8 needed information to determine whether they want to  
9 avail themselves of these services and product. And  
10 second -- and this sort of gets lost in the  
11 conversation -- it allows the FCC to determine  
12 compliance with its own safeguards. Now, what Qwest  
13 and QCC are doing is they post blanket agreements to  
14 the Web, and we have had a lot of discussion about  
15 master services agreement, task orders, work orders,  
16 et cetera, and then they follow-up with these orders.

17                   A good example of how this works is  
18 contained on page 31 of my affidavit, Item O. And  
19 basically, I state that the, "FCC needs to determine  
20 compliance." So, I am not going to read that right  
21 now, but I would ask that you turn your attention to  
22 that at some point. They do not post individual

23 billable transactions. I also have stated in my  
24 testimony, they do not timely post work and task  
25 orders. None of the task and work orders for QCC,

102

1 since becoming a 272 affiliate, if you take AT&T's  
2 supposition that happened January 1st or before, were  
3 posted prior to the end of March 2001. Concrete  
4 examples are contained on page 54, Item F of my  
5 testimony. Qwest was using QC's network equipment for  
6 almost nine months, but the task order was not posted  
7 until the end of March 2001. This means that any  
8 competitors who may have wanted to use the service  
9 wouldn't have known about it until it was posted.

10 As to Slide 20, there was a considerable  
11 amount of discussion concerning this discrepancy slide  
12 and statistics used. I would just supplement that  
13 discussion by noting that in January and February,  
14 there's no entries. That's because there's no billing  
15 done in January and February, even though transactions  
16 were occurring.

17 MS. JENNINGS-FADER: Just a point of  
18 clarification. Is this part of the nine-month time  
19 period during which the billings were not occurring?

20 MR. SKLUZAK: January and February,  
21 that's correct.

22 MS. JENNINGS-FADER: This is the  
23 continuation of -- the tag end of the period that began

24 in July of 2000?

25 MR. SKLUZAK: That's correct.

103

1 MS. JENNINGS-FADER: Thank you.

2 MR. SKLUZAK: In summary, the FCC must  
3 make a prohibitive judgment of compliance based on past  
4 history and present practices. The strategy of Qwest  
5 seems to be to do the bare minimum to obtain the check,  
6 simply get the form of further compliance but certainly  
7 not the substance. They are not being conscientious  
8 and following the rules. For example, Qwest will  
9 assert an unbroken stream of Section 272 compliance,  
10 while past practices show repeated violations of  
11 Section 271.

12 My presentation or opening statement  
13 today is simply an overview and rebuttal of  
14 Ms. Schwartz's presentation, primarily. However, I  
15 encourage staff and the Colorado state commissioners to  
16 spend sometime reviewing the many instances of  
17 noncompliance of Qwest in my testimony. I realize that  
18 it makes for tedious reading, but it is important to  
19 make note of what is behind the paper promises. Once  
20 again, remember, the FCC has stated that the past and  
21 present behavior is highly relevant because such  
22 behavior provides the best indicator of whether the  
23 requirements of Section 272 will be complied with.

24 Thank you.

25 MR. BELLINGER: Mana.

104

1 MS. JENNINGS-FADER: Could you give the  
2 commission some sense of the volume of transactions  
3 reviewed in each of your three reviews?

4 MR. SKLUZAK: Okay. The initial one,  
5 once again, I went over there on August of 2000 -- I  
6 would have to refer back to my testimony, but the  
7 transactions that I inspected or tested or reviewed, I  
8 believe, went up to April of 2000.

9 MS. JENNINGS-FADER: Do you have some  
10 sense of how many?

11 MR. SKLUZAK: How many I took? I do talk  
12 about statistics in my testimony, but --

13 MS. JENNINGS-FADER: Okay.

14 MR. SKLUZAK: It's much more than  
15 50 percent of the total dollar amount. As far as the  
16 number of transactions, I don't recall off the top of  
17 my head. It was definitely over 50 percent of the  
18 dollar amount. And so that was my initial review  
19 period. My follow-up was held in April of this year,  
20 and it was an even higher amount, if I remember  
21 correctly, dollar amount. And then my supplemental, it  
22 was almost 100 percent of what I looked at.

23 MS. JENNINGS-FADER: Thank you. I just  
24 couldn't recall seeing the numbers in the affidavit.

25 They may be here. Thank you.

105

1 MR. BELLINGER: Okay. Any one have any  
2 further questions then?

3 MR. MUNN: Hagood, I think Ms. Schwartz  
4 would like to respond to some of the allegations made  
5 by -- Mr. Skluzak just made now on the record.

6 MR. BELLINGER: Okay. Mana.

7 MS. JENNINGS-FADER: I am sorry.  
8 Mr. Skluzak, then also Qwest, I am not asking this just  
9 of one person. Is there anyone at AT&T who -- or any  
10 other CLEC who would like to address -- has any  
11 thoughts about the loaned employee policy, the  
12 limitation of the policy to four months loan from one  
13 company to another. Whether --

14 MR. SKLUZAK: Rick may want to chime in  
15 here, but I will just give you my thoughts on that. We  
16 think it's a step in the right direction. I pointed  
17 this out in my direct testimony, that it's a free flow  
18 of employees, first of all, moving back and forth,  
19 which actually is a separate but tangential issue, but  
20 also this policy of loaning employees that are 100  
21 percent dedicated for big amounts of time goes against  
22 the spirit of Section 272(D) as to separation of  
23 employees. If you are going to have actual true  
24 separate entities, how can you have an employee that's

25 100 percent dedicated that originated from QC going to

106

1 QCC. This was brought up in lots of detail in the  
2 multi-state, and I believe either Ms. Schwartz or Ms.  
3 Brunsting, I can't remember which, brought up this  
4 formal policy subsequent to that discussion. So, I  
5 think it's a step in the right direction. But that  
6 does not excuse the past behavior and what's occurring.  
7 You will still need to take that into consideration.

8 MS. JENNINGS-FADER: And then I would  
9 like to add -- I meant to ask this earlier and I  
10 apologize for not doing so. Could you -- could Qwest  
11 explain the derivation of what used to be -- what was  
12 the policy, if any, with respect to the loaning of  
13 employees for 100 percent dedication as among and  
14 between the affiliates. Why Qwest went to four months,  
15 and then if Qwest has any plans to reduce that  
16 four-month period even further, or is Qwest satisfied  
17 with the former time period? So I would like to have a  
18 little discussion on that.

19 MS. BRUNSTING: Okay. The previous 272  
20 affiliate, Qwest Long Distance, over it's probably four  
21 years in existence, I don't know of any examples where  
22 100 percent of an employee's time was fully dedicated  
23 or that employee was then loaned to the BOC affiliate.  
24 If they provided services to the BOC, and the agreement  
25 was placed out on the Internet, it certainly was not

1 100 percent of their time. Their time was charged  
2 accordingly, et cetera.

3                   During the transition period, from  
4 July 2000 through March, when we identified the new 272  
5 affiliate, in order to correctly allocate a number of  
6 the costs, that there are several work orders out there  
7 that would indicate we had employees aligned in certain  
8 entities, that, therefore, 100 percent of their time  
9 was being employed or dedicated to the BOC or the 271.  
10 It is our intention, at the onset of putting that  
11 policy in place, that would prohibit that loaning, was  
12 so that in future transition period reorganizations,  
13 however, that we continue to not utilize that loaning  
14 of employees or the sharing of employees, and that we  
15 would minimize that to a particular service or a part  
16 of a certain activity that an employee was providing,  
17 because it does, over time, appear to be sharing.

18                   MS. JENNINGS-FADER: Could you explain --  
19 first of all, I understand you talked about QC --  
20 excuse me, the prior 272 affiliates to the BOC. What  
21 about from the BOC back to the prior 271 affiliate?

22                   MS. BRUNSTING: I believe we received  
23 service from particular --

24                   (Discussion off the record.)

25                   MS. JENNINGS-FADER: Okay. Well, let's



1 see if we can reconstruct this. Let's go back to the  
2 question, which was my question to Qwest about the  
3 affiliates, the use of employees by the old Section  
4 272 -- the use of the old 272 affiliate employees by  
5 Qwest Communications -- no, Qwest Corporation, the BOC.  
6 Okay? And you had some explanation about what that  
7 sharing or employee loans or whatever you want to call  
8 it may have been, so just repeat that, please.

9 MS. BRUNSTING: Okay. The services that  
10 were previously provided by Qwest Long Distance to the  
11 BOC, or by the BOC to the 272 affiliates, premerger,  
12 those services were always reduced to writing and  
13 posted on the Internet. The types of service that were  
14 included there were financial type analysis services.  
15 There were some public media type of services that were  
16 provided back from the 272 affiliate to the BOC.

17 What I would say is that, to my  
18 knowledge, there was no 100 percent designation of an  
19 employee that was on loan to the BOC from the 272, or  
20 from the BOC to the 272, both directions.

21 MS. JENNINGS-FADER: I am sorry.

22 MS. SCHWARTZ: I would just like to add a  
23 cite out of the nonaccounting safeguard order that  
24 Ms. Brunsting had referred to earlier. I am just going  
25 for read from this cite. It's in paragraph 179. And

1 it appears on page 8 of my rebuttal affidavit. "We  
2 also decline to impose the prohibition of sharing of  
3 services other than operation, installation and  
4 maintenance services on policy grounds. We find that  
5 if we prohibit the sharing of services, other than  
6 those restricted pursuant to 272(B)(1), the O&M, the  
7 BOC and Section 272 affiliates would be unable to  
8 achieve the economies of scale and skill inherent in  
9 offering an array of services."

10 MS. JENNINGS-FADER: Okay. Now, thank  
11 you. With respect to the -- I don't believe this  
12 answer is now on the record. Can you explain to the  
13 commission, please, why the duration -- the policy  
14 duration on loaning of employees is four months?

15 MS. BRUNSTING: A time period was  
16 selected to best continue to meet some efficiencies  
17 within the corporation. And four months seemed to be  
18 an appropriate time period that we could utilize and  
19 manage, so that it would be reduced to writing,  
20 however, and posted on the Internet. It was one  
21 control we could put in place with the time period and  
22 manage and control.

23 MS. SCHWARTZ: I would just like to add  
24 that loaning employees is not specifically prohibited  
25 by the FCC. So we felt that we had some discretion

1     there.  And it's my understanding that the workshop  
2     processes have been kind of give and take.  So this was  
3     something that we came to the table with to reduce our  
4     loaned employee duration times to four months.  So, it  
5     was a give on our part.

6                   MS. JENNINGS-FADER:  Now, with respect to  
7     the four months, is that, as I have understood you so  
8     far to say, that the prior practice was not to loan 100  
9     percent of an employee's time, but rather to split the  
10    employees' time in some way, as a past practice,  
11    correct?

12                  MS. BRUNSTING:  That was the general  
13    understanding, yes.

14                  MS. JENNINGS-FADER:  Is that the current  
15    practice?  That these loans are not 100 percent of an  
16    employee's time?

17                  MS. BRUNSTING:  The current is, yes.  No  
18    100 percent of an employees' time for more than four  
19    months at any 12-month period.

20                  MS. JENNINGS-FADER:  There's been a  
21    change from the past practice?

22                  MS. BRUNSTING:  It's an actual policy  
23    now.

24                  MS. JENNINGS-FADER:  That's not my  
25    question.  There's been a change from the past

111

1     practice?  In the past, the policy was not to loan 100

2 percent of the time. The current practice is that,  
3 one, it is possible to loan an employee up to four  
4 months for 100 percent of that employee's time?

5 MS. BRUNSTING: It was always possible to  
6 loan -- to utilize an employee for, let's say, up to 12  
7 months in any -- as long as you had it reduced to  
8 writing and posted on the Internet. We didn't have a  
9 policy that foreclosed that.

10 MS. JENNINGS-FADER: To do 100 percent of  
11 an employee's time up to a year?

12 MS. BRUNSTING: I do not know of any  
13 instance where 100 percent of an employee's time was  
14 used.

15 MR. MUNN: That was her discussion, is  
16 that it doesn't occur, the 100 percent of the time.

17 MS. JENNINGS-FADER: Mr. Munn.

18 MR. MUNN: Didn't occur.

19 MS. JENNINGS-FADER: I appreciate that,  
20 the fact that you are attempting to help me to  
21 understand the witness's testimony. But I would like  
22 to talk to the witness about this, because I want to  
23 understand what the past policy was and whether the  
24 current practice and policy is changed from the past  
25 policy. So, let's talk about the past policy.

112

1 MS. BRUNSTING: There was not a formal

2 policy.

3 MS. JENNINGS-FADER: So, one could have  
4 had an employee -- this is what I am trying to  
5 understand.

6 MS. BRUNSTING: Yes.

7 MS. JENNINGS-FADER: One could have had  
8 an employee who was, quote, loaned, unquote, to a  
9 separate affiliated corporation, the 272 affiliates to  
10 the BOC, for 100 percent of that employee's time, up to  
11 12 months. That was the prior policy. Am I correct?

12 MS. BRUNSTING: That situation could  
13 occur, yes.

14 MS. JENNINGS-FADER: Whether it did, in  
15 fact, occur is a different question, but the policy was  
16 that.

17 MS. BRUNSTING: Yes.

18 MS. JENNINGS-FADER: The current policy,  
19 whether or not it occurs, is --

20 MS. BRUNSTING: Is that the time period  
21 is restricted.

22 MS. JENNINGS-FADER: To four months.

23 MS. BRUNSTING: To four months. I  
24 cannot, 100 percent of the time, utilize an employee  
25 for another area for more than four months out of any

113

1 12. It's a reduction.

2 MS. JENNINGS-FADER: Okay. Now I am

3 curious to know, given the list of services performed  
4 from the Qwest Services Corporation, shown on Exhibit  
5 MES-6, of Exhibit 7-Qwest-3, why is it necessary to  
6 have -- what efficiencies are gained from the loan of  
7 employees as between the BOC and the 272 affiliate,  
8 given the nature of what I think is happening at the  
9 service level.

10 MS. SCHWARTZ: Exactly. I think what  
11 Ms. Brunsting has alluded to is that this practice is  
12 pretty uncommon. Doesn't happen very often. And, so,  
13 there hasn't been -- there hasn't been an, I guess, a  
14 lot of emphasis or question or concern around past  
15 practices. And to the extent that AT&T mentioned some  
16 concerns, that were primarily out of those one-time  
17 transactions that took place during the transition  
18 period, we basically volunteered to limit our policy to  
19 four months. But, again, in either case, the  
20 transaction would be posted on the Internet and made  
21 available to third parties at the same rate, terms and  
22 conditions, but it's pretty uncommon and for the  
23 reasons just mentioned; that a lot of the services are  
24 actually being provided out of the services company.

25 MS. JENNINGS-FADER: Right. So, now my

114

1 question is, why is there a policy that allows loan of  
2 employees at all, notwithstanding the fact that the FCC

3 has not prohibited the practice. Let's put that to the  
4 side. What is Qwest's reason for wanting to have the  
5 ability to do this loaning?

6 MS. BRUNSTING: It is a position, on our  
7 part, to best and most extensively have the opportunity  
8 to utilize our employees in other areas. And also,  
9 under certain circumstances, to make that publicly  
10 available, but to manage our business.

11 MS. JENNINGS-FADER: Thanks.

12 MR. SKLUZAK: Can I make a comment, just  
13 a follow-up on this line of questioning?

14 MR. BELLINGER: Sure.

15 MR. SKLUZAK: As regarding this  
16 employee-sharing policy, there's lots of mention of  
17 posting, making publicly available. That implicates  
18 Section 272(B)(5), which encompasses the posting and  
19 also Section 272(C), which is the nondiscrimination  
20 safeguards. But the scope of what I was talking about,  
21 this employee lending, is 272(B)(3), which is the  
22 independence of employees, and as you probably noted in  
23 my testimony, I stated that it went against the spirit,  
24 against the substance of this independence that is  
25 required by the FCC as far as employees between QCC and

115

1 QC. So, I don't want a red herring to be introduced,  
2 that we publicly posted, therefore, it's okay, still  
3 keep on the 272(B)(3) aspect.

4 MS. JENNINGS-FADER: Then, if that's  
5 true, why, in your opinion, hasn't the FCC prohibited  
6 the policy in its entirety?

7 MR. SKLUZAK: They may indeed, when Qwest  
8 makes their application to them.

9 MS. JENNINGS-FADER: Let's talk about  
10 applications that have been granted.

11 MR. SKLUZAK: Okay.

12 MS. JENNINGS-FADER: I believe Qwest is  
13 correct when it says there's no FCC rule or other  
14 requirement that bans the practices entirely. Why, in  
15 your opinion, is that true?

16 MR. SKLUZAK: Perhaps this has never been  
17 brought before the FCC. Perhaps there wasn't this  
18 incident of 100 percent employee-sharing between two  
19 entities. I am not sure.

20 MR. WOLTERS: And perhaps no company has  
21 gone and done as extensive an analysis as we have.

22 MS. JENNINGS-FADER: I am sorry. I  
23 missed the first part of your answer.

24 MR. WOLTERS: Maybe nobody has gone in  
25 and done an audit, like Mr. Skluzak, to look at, on a

116

1 transaction-by-transaction basis, and found this  
2 practice.

3 MS. JENNINGS-FADER: Okay. Thanks.



4 MR. SKLUZAK: Let me say, by Mr. Wolters  
5 saying "audit," that's not a financial audit. I did  
6 testing of transactions, not a true accounting audit.

7 MS. JENNINGS-FADER: Okay. Thank you.

8 MS. SCHWARTZ: I would just like to add  
9 to the remarks about the loaned employee policy, just  
10 to make sure that we're all clear and of the  
11 understanding that to the extent that we do have  
12 employees loaned, that was limited to the duration of  
13 four months as is the current policy. It would be  
14 posted on the Internet. The rates, terms and  
15 conditions are made available to any other third party  
16 who wanted to --

17 MR. MUNN: It's not just posted on the  
18 Internet. It has to be made available under 271(C) to  
19 anybody in this room or outside of this room who wants  
20 the same thing.

21 MS. WAYSORF: When you say that each  
22 individual employee loaned is posted. So, Joe somebody  
23 technician, I don't know what -- I am just making  
24 somebody up -- his loan would be posted, but something  
25 specific to that employee. So, assuming there were 100

117

1 such loans, there would be a 100 such postings.

2 MS. SCHWARTZ: It would be limited to the  
3 level of expertise, so we wouldn't be posting people's  
4 names, but we would be describing their positions and

5 the functions that they were performing.

6 MS. WAYSDORF: On an individual employee  
7 basis, perhaps without a name, but to answer my other  
8 question, if there are 100 such loans, there would be a  
9 100 separate postings.

10 MS. SCHWARTZ: If there were 100. I  
11 guess that question has really never come up. But, the  
12 way I would envision it is, if Judy needed three  
13 accountants, all of the same expertise level, I would  
14 envision that it would basically be that three  
15 employees at X level who are accountants and are  
16 working on this service for this duration of time.

17 MS. BRUNSTING: That's right. And it  
18 could also be so stated, it was a particular project  
19 that they did, so, that would have a price with it, or  
20 a particular service.

21 MS. WAYSDORF: Wouldn't be stated or  
22 would be?

23 MS. BRUNSTING: Would be. It would be  
24 clearly identified in the work order, the service  
25 provided by the BOC to the long distance affiliate.

118

1 It's in conjunction with the service that this employee  
2 performs some function.

3 MS. WAYSDORF: Okay. Then how would a  
4 CLEC or a third party -- a third party would not be

5 able to use one of those accountants, would he?

6 MS. SCHWARTZ: Well --

7 MS. BRUNSTING: My understanding.

8 MS. SCHWARTZ: Sure he would.

9 MS. WAYS DORF: My understanding, if he is  
10 out for three months.

11 MS. SCHWARTZ: Yes, he would. That's  
12 exactly the point.

13 MR. SUMPTER: Without the name?

14 MS. BRUNSTING: It's a service.

15 MS. WAYS DORF: You would loan PacWest,  
16 for example, an accountant for three months to perform,  
17 I don't know, cost allocation or something.

18 MS. BRUNSTING: Certain services, certain  
19 financial services, if you requested, just as we have  
20 requested certain financial services to be performed,  
21 the BOC understands and has gone through a process that  
22 would say they understand they have to provide that to  
23 any other carrier that requests it.

24 MR. SUMPTER: I have a follow-up  
25 question to that. I am aware that certain individuals

119

1 in a company will have a certain degree of expertise or  
2 peculiar skill that makes them unusually valuable. And  
3 I would assume that, in these limited cases, or at  
4 least what you have described as limited cases, of  
5 borrowing employees back and forth for a short period

6 of time, I just assumed that you were loaning a  
7 particular employee because of the skills of that  
8 employee, not just a vague general service. So without  
9 the name of the employee, how would a CLEC know that  
10 they were getting the same value for trying to obtain  
11 the same service from the BOC?

12 MS. SCHWARTZ: Right. I think it would  
13 depend on which employee that we're talking about, and  
14 the level of expertise, because I think we're talking  
15 about, a great deal, today, in hypotheticals. This  
16 doesn't occur very often. We haven't received one  
17 single call from one single CLEC or any other  
18 interexchange carrier asking for any of these services.

19 So, what we're trying to do is, I  
20 think -- at least I feel a little uncomfortable that  
21 we're speaking a lot in hypotheticals about a practice  
22 that's not very commonplace. But to the extent that it  
23 is important -- let me just add, to the extent that it  
24 is important and relevant to the decision-maker, who  
25 would be potentially interested in buying the service,

120

1 the specific level of expertise such that it was so  
2 specific that you would have to put the individual's  
3 name, I suspect that we would do that. It's just never  
4 been envisioned, I don't think, up until this point.

5 MS. BEWICK: I suspect one of the reasons

6 you haven't had requests, I don't know about anyone one  
7 else in this room, this is news to me. It's not news  
8 to me that there's the loaning back and forth, but it's  
9 news to me -- I guess I never thought about it, that  
10 same ability was open to a CLEC. And somehow I am  
11 somewhat suspicious that if, in fact, I would just  
12 think that loaning between the two companies, based on  
13 a business decision that was mentioned earlier, and  
14 making the best use of that employee body is part of  
15 the business analysis that's used to determine if that  
16 loan is going to be granted, somehow I have the feeling  
17 that that same CLEC wouldn't kind of place in the same  
18 parameters as to whether or not that made sense.

19                   So, I guess I am just sort of skeptical,  
20 if New Edge called and said I looked at your services  
21 and we would like to take advantage of borrowing  
22 someone for a four-month period of time at this same  
23 rate that they are being paid and will be paid by you,  
24 and everything else, that would stun me if that was  
25 ever granted.

121

1                   MS. SCHWARTZ: But let me just add this  
2 additional distinction -- that is the rule, but the  
3 other piece of it is when we make a decision about a  
4 service that we're going to provide for another 272, we  
5 have to understand and keep in mind the likelihood that  
6 someone else is going to be interested in the service.

7 And to the extent that we think it's high, and to the  
8 extent that we think we don't have the bandwidth to  
9 provide it, we may make a decision not to provide that  
10 to our 271, because it would put us in a position to  
11 have to offer it to others, which we're not willing to  
12 do.

13 MR. SUMPTER: Based on your experience,  
14 you're aware that the likelihood of somebody taking  
15 advantage of that opportunity is almost zero.

16 MS. SCHWARTZ: To date, that's correct.

17 MR. BELLINGER: Okay. I think we've  
18 gotten to lunch time.

19 MR. WOLTERS: No.

20 MR. BELLINGER: I know --

21 MR. WOLTERS: More discussion. Let's  
22 keep plodding along here.

23 MR. MUNN: However, like when we talked  
24 about 10:30 or 11, nobody seemed to pipe up, and it  
25 hasn't been us. That's fine. Everybody is available

122

1 for questions. I think we should be quiet and ask  
2 everybody else how much longer we would have, to gauge  
3 whether we can finish up now or --

4 MR. WOLTERS: I just wanted to say,  
5 because I am not going to be here this afternoon, I  
6 hate to have to come back, be here five minutes, and

7 then leave again.

8 MS. JENNINGS-FADER: Qwest, do you guys  
9 have anything else you want to say in response to  
10 anything that AT&T made in its presentation?

11 MR. MUNN: Right. I think Ms. Schwartz  
12 has about five minutes.

13 MS. SCHWARTZ: Okay. I just jotted down  
14 a few things that may be worth -- some new and  
15 different --

16 MR. BELLINGER: Wait a minute. We're  
17 trying to take a vote here. I think the staff has some  
18 questions.

19 MS. QUINTANA: They don't.

20 MR. BELLINGER: What we're down to is --  
21 all right. I have somebody back here that's not  
22 identified.

23 MS. TAN: Terry Tan with WorldCom. I was  
24 going to ask, I have to bring a public interest witness  
25 in.

123

1 MR. BELLINGER: We're not on public  
2 interest.

3 MS. TAN: If I can get a time table.

4 MR. MUNN: Terry, we're going to break  
5 for lunch when we're done with this.

6 MR. BELLINGER: We're trying to finish up  
7 272, and as soon as we finish 272, we'll be able to

8 accommodate TRAC A and public interest. So you need  
9 your witness after lunch anyway. And lots of other  
10 people are already here for that purpose, because we  
11 had a forecast of 10:30 that blew away somewhere, with  
12 a lot more questions. So, I am still trying to take a  
13 poll. We're talking about five minutes, do you think?  
14 Okay.

15                   There's one issue that's concerns me. We  
16 have one major issue identified; that is whether Qwest  
17 meets 272 compliance. We have not identified any  
18 subissues. Are you planning to leave it as one major  
19 issue, or do you want to -- seems like you would want  
20 to identify subissues. If you do, I would like you to  
21 develop that list sometime.

22                   MS. JENNINGS-FADER: Maybe you can do it  
23 by subsection of the statutes.

24                   MR. WOLTERS: Time out.

25                   MR. BELLINGER: I would like to do the

124

1 272 -- get done with Ms. Schwartz, and then we can roll  
2 into that before we break. But, I don't want to start  
3 now taking 20 minutes and start talking about briefing,  
4 and just have this tail sitting here.

5                   MS. QUINTANA: That's fine.

6                   MR. BELLINGER: I am not saying we would  
7 start it.



8 MR. WENDLING: Just identifying how long  
9 and how many issues -- we have yet to finish how long  
10 they are going to take. We have Ms. Schwartz for five  
11 minutes, 20 minutes to come up with the subissues.

12 MS. QUINTANA: Staff needs a  
13 clarification of what the parties are going to brief.

14 MR. WOLTERS: 272(A), (B), (C).

15 MR. MUNN: I think, since we're, I think,  
16 incorporating the multi-state transcript, it's  
17 addressed in the transcript. That has the  
18 identification of each of those issues, so we can  
19 simply --

20 MR. BELLINGER: We need it for here,  
21 John.

22 MR. MUNN: Right. You have the copy.

23 MS. JENNINGS-FADER: No, we don't. We  
24 need to have it here.

25 MR. BELLINGER: I am not going to read

125

1 the transcript and develop an issue list.

2 MR. MUNN: No. The issue list can be  
3 submitted from the multi-state, but it's not something  
4 we need to walk through here. We already walked  
5 through it in the multi-state transcript.

6 MR. WENDLING: Who is going to do that?  
7 Who is going to go through the multi-state transcript  
8 and come up with a list of issues and share it?

9 MS. JENNINGS-FADER: If we can do two  
10 things. Let's divide this up. Ms. Schwartz, or  
11 whoever over at Qwest wants to finish up whatever the  
12 substantive response you have, if any, for anything  
13 that's been asked, or the questions -- the statements  
14 of the AT&T witness. And I suggest we end the factual  
15 presentation portion, go off the record and talk till  
16 hell freezes over about the issue log.

17 MR. BELLINGER: That sounds like a good  
18 plan.

19 MS. JENNINGS-FADER: Finish this piece.

20 MR. BELLINGER: Why don't we finish. Go  
21 ahead. Then we'll try to figure out how we're going to  
22 develop the issue list.

23 MS. SCHWARTZ: I just want to respond to  
24 a couple of remarks that Mr. Skluzak made in his  
25 opening. There were a couple of references to, for

126

1 instance, to the fact that we have strengthened  
2 processes. Now, you know, I think that's a great  
3 thing. I would hope everybody in this room would be  
4 happy to know we're continuing to look at the internal  
5 controls at Qwest with regard to Section 272. And to  
6 the extent we feel some processes need to be  
7 strengthened, then we do that. For instance, when we  
8 moved to QCC as our new 272, one of the new processes

9 that we put in place was to monitor the network asset  
10 transfers. The LD, the old 272, didn't have any  
11 network assets. So we needed a new process at Qwest to  
12 meet the requirements of 272 to not have those network  
13 assets transfers. So that's one thing that we did.  
14 And I think that that's important to understand. I  
15 know, Mr. Wolters, I am getting hungry, so I am kind  
16 of running through this.

17 The other item that I wanted to mention,  
18 that Mr. Skluzak brought up, was his reference to  
19 biannual audit. And that, in the biannual audit, the  
20 agreed upon procedures engagement, and there,  
21 specifically, the auditors are specifically directed to  
22 not use the materiality when reporting discrepancies.  
23 That's fine. We have no problem with that. And that's  
24 exactly what we're doing today in our controls when we  
25 assess our Web discrepancies. We reported every single

127

1 one. However, materiality will still be used when  
2 analyzing and assessing the impact of those  
3 discrepancies. And the FCC did that in BellSouth  
4 Louisiana, when they looked at their Web discrepancies,  
5 and also in BellAtlantic New York. All Web  
6 discrepancies were reported, but materiality was used  
7 when assessing those.

8 I also made some notes about the loaned  
9 employee remarks. I think we hashed through that in

10 great detail. And I guess I would just like to wrap-up  
11 and say, it is important to understand that we went  
12 through a 272 transition period. We named the 272 in  
13 January, and we took three months to make it compliant.  
14 We couldn't make it compliant on the day that we named  
15 it. We needed a transition period. And we had some  
16 disruptions during that time period, and we made some  
17 mistakes during that time period, and we have corrected  
18 them. We also had some discrepancies and issues in the  
19 merger transition. Anyone in this room, I think,  
20 that's been involved in the merger of two huge  
21 corporations, knows that things don't always go  
22 smoothly. When you try to integrate policies and  
23 procedures, you have some disruption, but we have moved  
24 past that and we have corrected any of the errors that  
25 we found. And it was -- it accounted for one-time

128

1 disruptions in our processes. Anything else?

2 MR. MUNN: No. I think that's it for Ms.  
3 Schwartz.

4 MR. BELLINGER: Let me ask a question.

5 MR. MUNN: We do have, Mana, the bigger  
6 print, easier-to-read copy of 7-Qwest-8.

7 MS. JENNINGS-FADER: Thank you.

8 Ms. Schwartz, I have a question or a request. Could  
9 you explain to the commission the nine-month duration

10 of the one-time disruption of the posting of the  
11 accounting transactions? What, first of all, was it  
12 nine months in duration and secondly, could you explain  
13 why there was that nine-month interruption?

14 MS. SCHWARTZ: I would actually break the  
15 nine months down into two periods, the six months from  
16 the merger to the end of the year, which we called the  
17 merger transition earlier today, and the 272  
18 transition, because I think there are basically two  
19 different things going on there which helped to explain  
20 and understand what some of the issues were.

21 We did identify transactions with QCC,  
22 the new affiliate, after the merger, in that merger  
23 transition period, but, to be honest, we didn't  
24 identify all of them, and we were fearful of that. And  
25 so as soon as -- in the December time period, and as

129

1 soon as we made the decision that QCC would be the 272  
2 affiliate, we brought in additional help to identify  
3 those transactions.

4 Now, we're not talking about a posting  
5 error here, because you can't post or you wouldn't be  
6 required to post transactions with your 272 affiliate  
7 before you even name a 272 affiliate. So, there were  
8 no 272 rules in place or required for QCC -- and I hope  
9 this is making sense -- in the merger transition period  
10 in the latter half of 2000. Those actually kick in

11 once you declare your 272 subsidiary or you turn it up  
12 and you turn up the Website. That's what we did on  
13 March 26th.

14 MS. JENNINGS-FADER: All right. So,  
15 correct me if I am wrong. Then it's Qwest's belief  
16 that there is a zero month interval, which is a failure  
17 to account for the affiliate transactions, zero months  
18 meaning what you just said, is that for six months it  
19 was King's X because it was the merger transition  
20 period, and you hadn't named an affiliate. Then the  
21 second three months, which is the January, February and  
22 March period of 2001, is King's X because you hadn't  
23 turned up the affiliate; am I correct?

24 MS. SCHWARTZ: I wouldn't categorize it  
25 quite that way. I would categorize it slightly

130

1 differently, I believe, and I think that we have  
2 admitted that we didn't catch all of the affiliate  
3 transactions in the merger transition period. We made  
4 a mistake.

5 MS. JENNINGS-FADER: Okay. Should you  
6 have captured them all in that six-month merger  
7 transition period?

8 MS. SCHWARTZ: Should we have captured  
9 all affiliate transactions? I guess it depends. Sure,  
10 we should have. And when, at the end of the day, you

11 know, one would argue whether or not we were out of  
12 compliance would be based on some level of materiality  
13 with the 32.27 pricing rules, and when you look at all  
14 of the affiliate transactions that the BOC has with all  
15 Qwest affiliates, which is how that's been measured  
16 historically, it was immaterial. We caught some but --  
17 or we identified some, but we didn't identify all,  
18 that's correct.

19 MS. JENNINGS-FADER: Okay. Then the 2nd  
20 three-month period, January, February, May of 2001, and  
21 admittedly my expression King's X, but, is it Qwest's  
22 position that those three months are not and shouldn't  
23 be included in the commission's review because no 272  
24 affiliates had been identified and in Qwest's  
25 expression, turned up before the end of March?

131

1 MS. SCHWARTZ: I think that I would  
2 categorize it as you should -- we would ask that you  
3 take into account that we needed some time period to  
4 make that 271 compliance. And the FCC gave the BOCs  
5 one year to make, you know, when 272 first kicked off,  
6 and companies were naming their 272 affiliates back in  
7 the LD days, companies had a whole year to make those  
8 affiliates compliant. This is kind of new ground. I  
9 don't think any other RBOC has been through this, and  
10 we made our 272 affiliate compliant in three months.  
11 So I guess we would ask that you give consideration to

12 the need for a transition period, which in our case was  
13 three months.

14 MS. JENNINGS-FADER: Okay. Thank you.

15 MR. BELLINGER: Okay. Any further  
16 questions?

17 MR. MUNN: No.

18 MR. BELLINGER: Okay. Go ahead, John.

19 MR. MUNN: No. I always feel bad.

20 Sometimes you ask those questions and nobody answers  
21 it. I wanted to make sure we go to lunch.

22 MR. BELLINGER: Off the record.

23 (Discussion off the record.)

24 (Recess.)

248

1 CERTIFICATE

2 KRISTY TURNER, JAMES L. MIDYETT, and  
3 HARRIET S. WEISENTHAL, Certified Shorthand Reporters in  
4 and for the State of Colorado, do hereby certify that  
5 we reported the foregoing proceedings in the first  
6 instance, and that later the same was reduced to  
7 typewritten form under our direct supervision and  
8 control; we further certify that the foregoing is a  
9 true and complete transcription of our stenographic  
10 notes then and there taken.

11 Dated \_\_\_\_\_, 2001.



12

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KRISTY TURNER

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JAMES L. MIDYETT

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